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OVERVIEW

We principally engage in the development and manufacturing of biodegradable plastic products in Northeast China and our production base locates in Changchun, Jilin province, the PRC during the Track Record Period. Our biodegradable plastic products are sold to our customers (such as supermarket chains, department stores, outlets) mainly in the form of biodegradable produce bag rolls and biodegradable shopping bags. During the Track Record Period, we generated 90% or more of our revenue from the sales of biodegradable plastic products, whereas only not more than 10% of our revenue was generated from the sales of non-biodegradable automobile plastic parts. We sell biodegradable masterbatches, that can be used to manufacture our biodegradable plastic products. We sell our biodegradable masterbatches to manufacturers who lack the necessary production knowhow and/or capabilities to produce biodegradable masterbatches. Through the selling of masterbatches to other biodegradable plastic product manufacturers, we can also keep abreast with the latest market development and manufacturing trend. We generally manufacture biodegradable masterbatches based on our customers' requirements. We are not in the business of trading masterbatches and its raw materials.

We were established in March 2014. At our inception, we were primarily engaged in the development and manufacturing of non-biodegradable automobile plastic parts. With a vision that the implementation of encouraging policies in the PRC, which restricted or prohibited the sale and use of non-degradable plastic bags and utensils and required shopping malls, shops and markets' organisers to monitor the implementation of the plastic ban, our founders, Controlling Shareholders and executive Directors, Ms. Zhang and Mr. Shan gradually diversified our business in 2015 into the development and manufacture of biodegradable plastic products. We maintained non-biodegradable automobile plastic products segment for potential future conversion as we consider biodegradable automobile plastic parts will become a trend one day.

We believe our investment in R&D of biodegradable plastic products has enabled us to continuously develop new products and upgrade our existing products to meet evolving customers' needs and keep pace with market development. In addition, our biodegradable plastic products are customised and we collaborate with our customers closely at the early stage of the production cycle to initiate and develop product prototypes. Through continuous communication with our customers, we have developed an understanding of the needs of our customers, which allows us to offer products with custom-made specifications (such as size, thickness, colour, weight holding capacity, tear resistance and light transmittance) to the extent permitted by the relevant standards. We believe our collaboration with customers during the design stage allows us to gain insight into our customers' priorities and specifications, which enables us to be one of the preferred suppliers of our customers and create brand value beyond conventional manufacturing services.

Having the expertise in the development and manufacture of biodegradable plastic products, our Company contributed to the discussion and formulation of the national standard for biodegradable plastic shopping bags, namely "GB/T 38082-2019"⁽¹⁾, which was issued by the

Note:

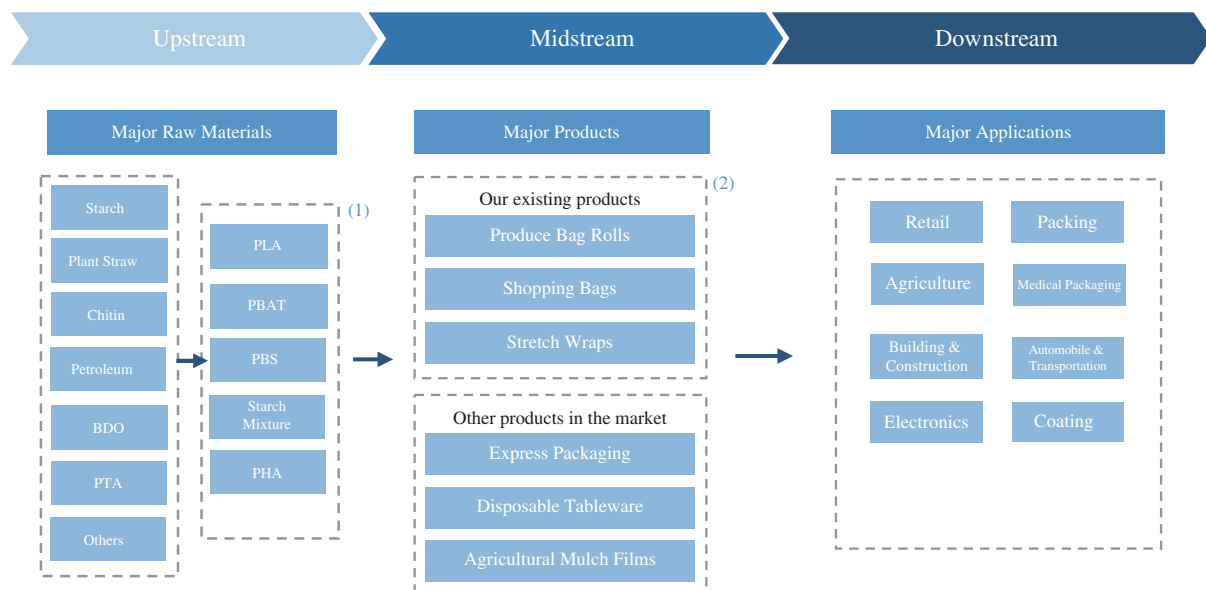
- (1) This standard was released in October 2019 and became effective in May 2020. All biodegradable plastic shopping bags shall comply with the specified requirements (such as dimension margin of error, colour, smell, appearance, thickness, tear resistance, stretchability and weight holding capacity).

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SAMR and the Standardisation Administration of the PRC (國家標準化管理委員會) in October 2019. As at the Latest Practicable Date, “GB/T 38082-2019” remained the sole and only national standard in the PRC for biodegradable plastic bags which stipulates the terms and definitions, requirements, test methods, inspection rules, packaging, transportation, and storage of biodegradable plastic shopping bags.

We consider the results of our investment in R&D as our valuable assets. We, apart from in-house research which is mainly material related, have conducted R&D by collaborating with CIAC (中國科學院長春應用化學研究所), a third-party research institute, since 2018. As at the Latest Practicable Date, we held 29 utility model patents, two invention patents and three registered trademarks in the PRC, in relation to the manufacturing of our biodegradable plastic products. We were also in the process of application of one patent to protect our R&D results as at the Latest Practicable Date. We joined plastic production related industry associations in the PRC, including the Degradable Plastics Committee of China Plastic Processing Industry Association (中國塑料加工工業協會降解塑料專業委員會) and the Changchun Die & Mould Industry Association (長春市模具工業協會), so as to keep ourselves abreast of the market trends and to seek other potential business opportunities.

The following chart sets forth the simplified value chain of the biodegradable plastic products market and our operational focus:



Notes:

- (1) For FY2021, PLA, PBAT and PBS accounted for approximately 73.4% of our total costs of raw materials.
- (2) During the Track Record Period, we derived 90% or more of our revenue from the sales of biodegradable plastic products.

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As at the Latest Practicable Date, our production base was located in Changchun, Jilin province, the PRC. At our Changchun Production Base, we have separate plants for biodegradable plastic products and non-biodegradable plastic products, namely, the biodegradable plastic products production plant on Lot 2; and the non-biodegradable automobile plastic parts production plant on Lot 1.

We market our products to customers directly through our sales and marketing department which serves our customers. As at 30 September 2022, we had six staff members responsible for sales and marketing functions. Generally, we maintain contact with our customers through phone calls, messaging apps and visits.

During the Track Record Period, we sold all our products to our customers in the PRC. The following table sets forth the breakdown of our revenue by geographic locations, based on the registered address of the relevant contractual parties:

	FY2019		FY2020		FY2021		9M2021		9M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Northeast China	80,118	78.0	132,144	79.3	200,995	78.3	150,720	79.2	165,650	77.4
— Jilin province	77,589	75.5	126,441	75.8	194,326	75.7	146,065	76.8	158,990	74.3
— Heilongjiang province . . .	2,435	2.4	5,526	3.3	6,188	2.4	4,655	2.4	6,034	2.8
— Liaoning province	94	0.1	177	0.1	481	0.2	—	—	626	0.3
Others ⁽¹⁾	22,582	22.0	34,578	20.7	55,745	21.7	39,542	20.8	48,461	22.6
Total	102,700	100.0	166,722	100.0	256,740	100.0	190,262	100.0	214,111	100.0

Note:

(1) Others mainly include Beijing, Shandong province, Zhejiang province, Shanghai and Guangdong province, the PRC.

During the Track Record Period, Jilin province contributed the majority of our revenue, which accounted for approximately 75.0%, this is largely due to:

- (i) we were established in Jilin province, and began our operation and business in Jilin province, having production base located in Changchun, Jilin province;
- (ii) we received prior investments to fund our early operation from Jilin Innovative Investment and Jilin Technology Fund, both of which were ultimately controlled by Jilin Province Department of Finance* (吉林省財政廳), with a focus to assist the growth of small and medium enterprises in Jilin province;

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- (iii) we maintained a close and good working relationship with CIAC, a third-party research institute located in Changchun for the Company's biodegradable plastic product related R&D;
- (iv) we are a member of Changchun Die & Mold Industry Association, which allows us to keep ourselves up to date of the market trends and to seek other potential business opportunities in Jilin province more easily;
- (v) during the Track Record Period, approximately 45.8%, 56.3%, 52.7% and 48.6% of our revenue was derived from major customers, whose principal place of business were mainly in Jilin province;
- (vi) Jilin province was the first province in China to fully ban the production and sale of non-degradable plastic bags and utensils, and require shopping malls, shops, and markets' organisers to monitor the implementation of the plastic ban. The People's Government of Jilin Province (吉林省人民政府) has been and is a pioneer in enforcing new laws and regulations to prohibit the production, sale and supply of non-degradable plastic products, where People's Government of Jilin Province (吉林省人民政府) approved the Policy of Prohibition of Production, Sale and Supply of Single-Use Non-Degradable Plastic Shopping Bags and Utensils in Jilin Province (吉林省禁止生產銷售和提供一次性不可降解塑料購物袋、塑料餐具規定) in 2014, aimed at reducing plastic waste and conserving resources; and
- (vii) as at 2022, Jilin province remains to be one of the pioneers with strictest level of enforcement against the production and sale of non-degradable plastic products, and during the material time, the enforcement of these policies on comprehensively prohibiting the production, sale, and use of plastic products in other provinces (such as Heilongjiang province and Liaoning province) was less stringent due to the implementation of these policies was later in these provinces than Jilin province.

Our biodegradable plastic products mainly comprise (i) biodegradable produce bag rolls (生物降解連卷袋); (ii) biodegradable shopping bags (生物降解購物袋); and (iii) biodegradable stretch wraps (生物降解包裝纏繞膜). During the Track Record Period, 90.0% or more of our revenue was generated from the sales of biodegradable plastic products. The customers of our biodegradable produce bag rolls and biodegradable shopping bags are mainly supermarket chains, department stores and outlets. To a lesser extent, we also sell our biodegradable shopping bags to hospitals, clinics and pharmacies for medical packaging use. Moreover, we sell biodegradable stretch wraps to automobile components companies and food and beverages companies to stretch

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wrap the pallets after cargos are loaded onto the pallets. Our biodegradable plastic products generally after a few months in landfill would react with bacteria, biomass and microorganisms and would begin to decompose.

Our Directors consider that our biodegradable shopping bags are fast-moving products. Generally, fast-moving products are products that are consumed quickly and at a relatively low cost. Furthermore, our biodegradable plastic products, in contrast to conventional non-biodegradable plastic products, can be easily decomposed. The following table sets forth the breakdown of our revenue and sales volume by products segment during the Track Record Period:

	FY2019			FY2020			FY2021			9M2021			9M2022		
	(unaudited)														
	Revenue		Sales volume	Revenue		Sales volume	Revenue		Sales volume	Revenue		Sales volume	Revenue		Sales volume
	RMB'000	%	kg'000	RMB'000	%	kg'000	RMB'000	%	kg'000	RMB'000	%	kg'000	RMB'000	%	kg'000
	<i>(approximately)</i>		<i>(approximately)</i>		<i>(approximately)</i>		<i>(approximately)</i>		<i>(approximately)</i>		<i>(approximately)</i>		<i>(approximately)</i>		
Biodegradable plastic products . . .	97,200	94.6	2,791	150,068	90.0	4,303	238,773	93.0	7,136	177,143	93.1	5,238	198,872	92.9	5,733
Non-biodegradable automobile plastic parts	5,500	5.4	156	16,654	10.0	809	17,967	7.0	790	13,119	6.9	588	15,239	7.1	664
Total	102,700	100.0	2,947	166,722	100.0	5,112	256,740	100.0	7,926	190,262	100.0	5,826	214,111	100.0	6,397

COMPETITIVE STRENGTHS

We believe that the following competitive strengths of our Group have contributed to our success in the industry.

We are a leading player in the disposable biodegradable plastic products manufacturers in China

We have diversified our business into the development and manufacturing of biodegradable plastic products in December 2015. We have been a biodegradable plastic products manufacturer in Northeast China and were awarded the “Certificate of Technology Small Giant Enterprise of Jilin Province” (吉林省科技小巨人企業認定證書) in 2017. We have also been recognised as “High and New Technology Enterprise” (高新技術企業) since 2018 and was being recognised as “Provincial Certification Enterprise Technology Centre” (省級企業技術中心) in 2021. We believe that these recognitions have reflected and shaped our position and reputation in the industry.

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With the growing awareness of environmental issues and greater emphasis being placed on the importance to control plastic pollution by the PRC Government, the demand of biodegradable plastic products has been increasing in recent years. According to the Frost & Sullivan Report, the sales revenue of disposable biodegradable plastic products (in particular Disposable Biodegradable Shopping Bags) in the PRC and in Northeast China is expected to grow at a CAGR of 36.7% and 36.1% from RMB9,099.5 million and RMB787.1 million in 2021 to RMB43,496.3 million and RMB3,674.2 million in 2026, respectively. Such an increase in sales and demand of disposable biodegradable plastic products was supported by a number of favourable government policies concerning the biodegradable plastic products market in China. For example, in 2020, the NDRC and Ministry of Ecology and Environment (生態環境部) jointly released the Opinions on Further Strengthening the Control of Plastic Pollution (《關於進一步加強塑料污染治理的意見》), which stated that by 2022, shopping malls, supermarket chains, pharmacies, bookstores, and other catering takeaway service are prohibited from using non-degradable plastic bags, and the prohibition on the use of non-degradable plastic bags will be expanded to the various marketplaces by the end of 2025.

In addition, the MOFCOM issued the Administrative Measures for Use and Report of Disposable Plastic Products (Draft for comments) (《一次性塑料製品使用、報告管理辦法(徵求意見稿)》) in 2021 and the Administrative Measures for Use and Report of Disposable Plastic Products (2nd Draft for comments) (《一次性塑料製品使用、報告管理辦法(第二次徵求意見稿)》) in 2022 which encourage reducing the use of non-degradable disposable plastic products, and promote using recyclable and biodegradable alternative products.

The PRC authorities have actively enforced prohibition of non-degradable plastic policies, which further speeded up the market's switch to biodegradable alternatives. For example, in 2019 and 2020, various prefectures or cities in Jilin province implemented enhancement measures for the prohibition of production, sale and use of disposable non-degradable plastic shopping bags and plastic tableware. Relevant authorities also performed checks in 2020 at various venues such as supermarket chains and pharmacies to ensure that the product quality of biodegradable shopping bags comply with the relevant national standards and regulations.

We believe that by leveraging on our position as a leading manufacturer of biodegradable plastic products in Northeast China, we have the advantages and capabilities in capturing the growing business opportunities in the PRC.

We invest in the R&D and the manufacturing of biodegradable plastic products

Since we expanded our business scope to the development and manufacturing of biodegradable plastic products, we have devoted a considerable amount of time and efforts to the R&D and the manufacturing of biodegradable plastic products. Since December 2017, we have

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been collaborating with CIAC to conduct R&D of biodegradable plastic products in Northeast China. Typically, our R&D department, after receiving feedbacks from our customers and other departments, would conduct preliminary research to identify ways to improve our biodegradable plastic products. Upon the identification of such technology, direction or research projects, our R&D department would liaise with CIAC to conduct research on these technology and direction. Our R&D department would monitor the research progress, review the R&D results, and provide feedback to CIAC from time to time.

Save for the R&D collaboration agreements, we did not maintain any other memorandum of understandings or exclusivity agreements with CIAC. Pursuant to the R&D collaboration agreements, we own all the intellectual property rights to the research findings and outcomes resulting from the research collaboration between CIAC and us. Further, the R&D collaboration agreements stipulate that CIAC must maintain confidentiality regarding all trade or technical secrets that had come into their knowledge during the research process and cannot disclose these secrets to any third parties without our prior written consent.

Our R&D efforts with CIAC has been recognised by the government authorities and industry peers. We have been recognised as “High and New Technology Enterprise” by Jilin Provincial Department of Science and Technology (吉林省科學技術廳), Jilin Province Department of Finance (吉林省財政廳) and Jilin Provincial Taxation Bureau of SAT (國家稅務總局吉林省稅務局) since November 2018. Also, with the expertise in the development and manufacturing of biodegradable plastic products, our Company contributed to the discussion and formulation of the national standard for biodegradable plastic shopping bags, namely “GB/T 38082-2019”, which was then issued by the SAMR and the Standardisation Administration of the PRC. As at the Latest Practicable Date, this was the sole and only national standard in the PRC which stipulates the terms and definitions, requirements, test methods, inspection rules, packaging, transportation, and storage of biodegradable plastic shopping bags.

We considered our collaboration with CIAC a cost-effective way to develop our biodegradable plastic products. While CIAC can obtain research directions and fundings from us, we can rely on the talents and technical advices from CIAC and minimise our R&D headcount. During the Track Record Period, we cooperated with CIAC to research on new technologies for the development and manufacturing of biodegradable plastic products.

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As at 30 September 2022, our R&D department consisted of 9 staff members and was headed by Mr. Shan. The majority of the members in our R&D team have over 10 years of experience in the biodegradable plastic products industry. The table below sets out the educational background of our R&D team:

Name	Name of degree/programme	Qualification	Institution	Awarded time	Date of joining the Company
Mr. Zhang Yutao (張玉濤)	Mould design and manufacturing	Diploma	Changchun Machinery Industrial School	July 2006	March 2014
Mr. Liu Shiji (劉世紀)	Mechanical engineering	Diploma	Changchun University	June 2003	November 2015
Mr. Li Peng (李鵬)	Mechatronics technology	Undergraduate degree	Heilongjiang Industry and Commerce Technology Institute	July 2016	July 2016
Mr. Guo Ye (郭野)	Construction	Diploma	The Open University of China (Changchun Campus)	January 2022	November 2016
Mr. Gan Li (甘理)	Material engineering	Master's degree	Beijing University of Chemical Technology	June 2001	December 2016
Mr. Yang Yongkuan (楊永寬) ⁽¹⁾	Polymer physics	Senior engineer certificate	CIAC	May 1988	December 2016
Mr. Wu Han (吳晗)	Pharmaceutical engineering	Undergraduate degree	Inner Mongolia Agricultural University	July 2012	September 2017
Mr. Wang Chongfeng (王崇峰)	Purchasing and supply management	Diploma	Jilin Vocational College of Industry and Technology	July 1998	August 2018
Mr. Ma Changjia (馬長佳) ⁽²⁾	Mechanical and electrical engineering	Undergraduate degree	Liaoning Institute of Science and Engineering	July 2016	December 2019

Notes:

- (1) In January 2019, Mr. Yang was rated as an outstanding engineer by the Degradable Plastic Professional Committee from the China Plastic Processing Industry Association.
- (2) Mr. Ma has extensive experience in the moulding industry. Prior to joining our Company, he worked in Ningbo Beilun Hengyong Mould Co., Ltd. (寧波北侖恒甬模具有限公司) for over ten years as a supervisor in the production department.

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During the Track Record Period, through the efforts of our R&D department, we commenced a total of 14 R&D projects and completed 13 of them, with one still in progress, in relation to the manufacturing of our biodegradable plastic products. The table below sets out our major R&D projects with CIAC during the Track Record Period:

Year of announcement of the project	Name of the Project	Details	Overall project sum	Status
			<i>(RMB'000)</i>	
			<i>(approximately)</i>	
2019	Development of an injection mould tool for degradable materials (一種用於降解材料的注塑模具的研發)	This project aims to improve the moulding result by utilising mercury conduction to energise an electromagnet to control the position of the electro-discharge port, allowing the heating wire to heat-up the raw materials in a more effective manner.	300	Completed
2019	Development of a high-speed film blowing machine (一種高速吹膜機的研發)	This project aims to improve the manufacturing process of film blowing, one of the key steps in our manufacturing process, which aims to improve the stretchability and cooling efficiency of plastic film.	360	Completed
2020	Development of an automated burr cutting device for plastic processing (一種塑料加工用自動化毛刺切割裝置的研發)	This project aims to improve the methodology of traditional burr cutting method, thereby improving manufacturing efficiency.	880	Completed
2020	Development of a multifunctional cooling device for plastic injection moulding (一種塑料注塑用多功能冷卻降溫裝置的研發)	This project aims to enhance the moulding separation techniques of our manufacturing process, thereby enhancing manufacturing efficiency.	1,100	Completed
2020	Development of an automated plastic parts punching device (一種自動化塑料零件打孔裝置的研發)	This project aims to improve the manufacturing process of hole-punching, one of the key steps in our manufacturing process.	880	Completed
2021	Blown film resin and film bag products (吹膜樹脂及膜袋製品)	This project aims to develop low cost and high starch content blown film resin and film bag products.	4,000	Completed
2021	Blown film resin composition and film conformation (吹膜樹脂組成與薄膜構效)	This project aims to research on the biochemical relationships between the composition and film properties of biodegradable blown film resins for performance assessment.	12,500	In progress. As at 30 September 2022, 16.0% of the project was completed

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Year of announcement of the project	Name of the Project	Details	Overall project sum	Status
			<i>(RMB'000)</i> <i>(approximately)</i>	
2022	Injection moulding resin and products (注塑樹脂及製品)	This project aims to study how to replace non-degradable injection moulding products with biodegradable injection moulding products such as lunch boxes, serving trays and tableware using PLA and PBS by using injection moulding. We conduct this research because of their tremendous market demand and compliance with social development regarding their application prospect.	500	Completed

We consider our investment in R&D our valuable assets. As at the Latest Practicable Date, we held 29 utility model patents, two invention patents and three registered trademarks in the PRC, in relation to the development and manufacturing of our biodegradable plastic products. As at the Latest Practicable Date, we were in the process of application of one patent to protect our R&D results.

In FY2019, FY2020, FY2021, 9M2021 and 9M2022, our R&D expenses amounted to approximately RMB4.5 million, RMB7.6 million, RMB9.7 million, RMB7.2 million and RMB7.2 million, respectively.

We have stringent quality control to our products

We believe that the quality and consistency of our products are critical to our customers and our reputation. All biodegradable produce bag rolls and biodegradable shopping bags produced by us are in compliance with national standards “GB/T 33798-2017” and “GB/T 38082-2019”, respectively. Our Company contributed to the discussion and formulation of the standard “GB/T 38082-2019”, the sole and only national standard in the PRC for biodegradable plastic shopping bags issued by the SAMR and the Standardisation Administration of the PRC in October 2019.

As a biodegradable plastic products manufacturer whose products demand a high degree of consistency, accuracy and performance from its equipment, we are highly selective when choosing suppliers which can meet such stringent technical specifications and quality standards. Furthermore, we are also IATF16949 (Automobile Quality Management System), ISO9001 (Quality Management System) and ISO14001 (Environmental Management System) accredited. We believe that our stringent quality assurance procedures will help us remain competitive; and our

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experience and commitment to quality, coupled with the customisation services we offer to our customers, will enable us to reinforce our current market position and create new business opportunities in the biodegradable plastic products industry in the PRC.

As at 30 September 2022, our quality control department consisted of five staff members and was headed by Ms. Zhang, a co-founder of our Group and has over seven years of experience in this industry. To keep our team abreast of stringent quality control measures, we have in place a quality control management system manual and training materials relating to the usage of quality control equipment and procedures of quality control testing.

As a result of our stringent quality control management system, we did not experience any material product return during the Track Record Period. We consider our dedication to quality control as one of the key contributing factors for us to establish our reputation in the market, receive recurring orders from our existing customers and maintain long-term business relationships with our customers.

We have established stable business relationships with our major customers

We believe that our strong customer base is the cornerstone of our business growth. Our five largest customers during the Track Record Period have established business relationships with us ranging from three to seven years.

Furthermore, recurring sales orders from our customers enabled us to have growing sales during the Track Record Period. For FY2019, FY2020, FY2021 and 9M2022, approximately 98.4%, 99.5%, 95.6% and 97.3% of our revenue were generated from recurring customers⁽¹⁾. Our Directors believe with repeat orders from the same customer it allows us to lower our R&D and production costs as well as production lead time, and thus help to improve our profitability.

We are committed to maintaining customer relationships and providing customers with quality products. Our sales team, headed by Mr. Shan, has established relationships with our major customers, and keeps abreast of their latest business development and change in their demand on our products.

Note:

- (1) “Recurring customers” refer to any customer who purchased products from us during the Track Record Period for more than one year.

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Typically, we manufacture our biodegradable plastic products to our customers according to their specifications, to the extent permitted by the relevant standards. Upon receiving requests from our customers, our sales and marketing department and R&D department will study the specifications and adjust the production formula to produce the biodegradable plastic products.

We have a seasoned management team with extensive experience

We have a seasoned management team with extensive experience in the biodegradable plastic products manufacturing industry. Our Group was founded by Ms. Zhang and Mr. Shan, who are our Controlling Shareholders and executive Directors. Both Ms. Zhang and Mr. Shan have over seven years of experience and knowledge in biodegradable plastic products manufacturing and have led our management team since our establishment. For further details of the industry experience of our Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.

We believe that our experienced management team are instrumental to our success. Under the leadership of our management team, we can formulate and execute strategies to seize opportunities and keep up with the market development in the biodegradable plastic product industry.

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As the biodegradable plastic product industry is expected to be supported by policies from the PRC Government in the foreseeable future, we aim to strengthen our position as one of the leading manufacturers of biodegradable plastic products in China and to expand our business footprint to other regions of the PRC. To achieve this, we intend to implement the business strategies as set out below.

Enhancing our production capacity and broadening our business coverage

According to the Frost & Sullivan Report, the biodegradable plastic products industry in the PRC has experienced a continuous growth, with the total market size increasing from approximately RMB3,386.3 million in 2016 to approximately RMB9,099.5 million in 2021, with a CAGR of approximately 21.9%. The biodegradable plastic products industry in the PRC is expected to reach RMB43,496.3 million in 2026, due to a combination of the following factors:

- favourable policies and active enforcement of such policies that promoted the application of biodegradable plastic for substitution of conventional non-degradable plastic;

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- evolving technology has greatly improved the industrial transformation and upgrading of the biodegradable plastic product market; and
- growing awareness in extending the application of biodegradable plastics and further development of its downstream applications.

In particular, according to the Frost & Sullivan Report, the biodegradable plastic products industry in Northeast China recorded a CAGR of approximately 23.1%, from 2016 to 2021, and is expected to reach approximately RMB3,674.2 million in 2026.

The following table demonstrates the designed production capacity, actual production volume and utilisation rate of our masterbatch mixers and production lines for biodegradable plastic products and non-biodegradable automobile plastic parts for the years/periods indicated:

	FY2019			FY2020			FY2021			9M2021			9M2022		
	Effective designed capacity ⁽¹⁾⁽²⁾	Actual production volume ^(kg'000)	Effective utilisation rate ⁽³⁾	Effective designed capacity ⁽¹⁾⁽²⁾	Actual production volume ^(kg'000)	Effective utilisation rate ⁽³⁾	Effective designed capacity ⁽¹⁾⁽²⁾	Actual production volume ^(kg'000)	Effective utilisation rate ⁽³⁾	Effective designed capacity ⁽¹⁾⁽²⁾	Actual production volume ^(kg'000)	Effective utilisation rate ⁽³⁾	Effective designed capacity ⁽¹⁾⁽²⁾	Actual production volume ^(kg'000)	Effective utilisation rate ⁽³⁾
Masterbatch mixers ⁽⁴⁾	11,844	2,788	23.5	11,844	5,353	45.2	11,844	7,224	61.0	8,883	5,766	65.0	8,883	6,310	71.0
Biodegradable plastic products ⁽⁵⁾	5,796	2,653	45.8	6,440	4,520	70.2	6,440	6,182	96.0	4,830	5,116	105.9	4,830	5,463	113.1
Non-biodegradable automobile plastic parts ⁽⁵⁾	8,064	135	1.7	10,080	833	8.3	10,080	830	8.2	7,560	602	8.0	7,560	649	8.6

Notes:

1. The effective designed capacity is determined and calculated by multiplying the daily capacity of our production lines (biodegradable plastic products production lines and non-biodegradable plastic production lines) with the applicable number of days of operation per year (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection).
2. We assume the daily operating hours for our production lines to be 24 hours (three eight-hour shifts, including meal time, rest breaks, equipment downtime and shift changes) for FY2019, FY2020, FY2021, 9M2021 and 9M2022. It is assumed that all of our production lines operated for 280 days in FY2019, FY2020 and FY2021 and 210 days in 9M2021 and 9M2022, respectively (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection).
3. The effective utilisation rate for each of the relevant years/periods is derived by dividing the actual production volume by the effective designed capacity.
4. Our masterbatch mixers can be used inter-changeably for masterbatch products for both our biodegradable and non-biodegradable plastic product production lines.
5. The effective utilisation rate for each of the biodegradable and non-biodegradable plastic production lines have excluded the effective designed capacity and actual production volume of masterbatch production line.

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Our expansion plan

Taking into account that the biodegradable plastic industry is policy-driven, its positive long term outlook and our growing utilisation rate, we plan to expand our production capacity and broaden our business coverage in Southeast China so as to capture the potential opportunities to fuel our growth. As we have diversified our business into the development and manufacturing of biodegradable plastic products in 2015 though we have continued to operate our non-biodegradable plastic products, our expansion plan mainly focus on the expansion of our biodegradable plastic products production. The following table sets forth the details of our expansion plan:

	<u>Region</u>	<u>Description</u>	<u>Approximate amount of net proceeds</u>	<u>Approximate amount which is expected to be settled by our Group's internal resources</u>
(i)	Northeast China	expand our operation in our Changchun Production Base	RMB54.5 million ⁽¹⁾	RMB27.7 million
(ii)	Southeast China	establish a new production base in Huizhou (惠州), Guangdong province	RMB54.4 million	RMB21.4 million
		Total	RMB108.9 million, representing approximately 66.5% of the net proceeds from the Global Offering	RMB49.1 million

As at the Latest Practicable Date, we had already identified a site in Boluo, Huizhou, Guangdong province and entered into a tenancy agreement to carry out our expansion plan for our Huizhou Production Base. For further details, please refer to the paragraph headed “— Properties” in this section.

Note:

- (1) The total cost for expanding our operation in our Changchun Production Base is approximately RMB83.3 million, of which approximately RMB1.1 million is expected to be settled by our Group by internal resources in 2022 and the first half of 2023.

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With a view to spreading out the investment cost while maximising the annual production capacity of the production lines, our Directors have considered the market potential of our products, operational risks, future strategy to broaden the sales network into Southeast China as well as the Group's business growth and believe it is vital and essential to expand our Changchun Production Base and establish our Huizhou Production Base given it can (i) help to strengthen our established position in Northeast China; and (ii) enable us to geographically expand into Southeast China:

Changchun Production Base

- During the Track Record Period, the demand for our products continued to grow due to the implementation of favourable policies by the PRC Government and the fact that we were able to obtain recurring orders from our established customers. The utilisation rate of the masterbatch production in our production facilities has steadily increased from 23.5% in FY2019 to 61.0% in FY2021 and further to 71.0% in 9M2022.
- Our current capacity to produce biodegradable plastic products (including biodegradable produce bag rolls, biodegradable shopping bags, and biodegradable stretch wraps production lines) is approaching its operation limit, further increase in machine time and work hours may negatively impact our staff morale and develop machine fatigue. The utilisation rate of our existing production lines for biodegradable plastic products already reached around 96.0% in FY2021 and 113.1% in 9M2022. This limits our ability to obtain new orders and solicit new customers.
- For FY2021 and 9M2022, although the utilisation rate of our non-biodegradable automobile plastic parts production lines were only 8.2% and 8.6% respectively, it is currently not commercially nor technically feasible to convert our non-biodegradable plastic products production lines into biodegradable plastic products production lines. This is because the production techniques, technical specifications, machinery requirements, raw materials and additives involved in the production process of our biodegradable plastic products (i.e. biodegradable produce bag rolls, biodegradable shopping bags and biodegradable stretch wraps) and non-biodegradable plastic products (i.e. non-biodegradable automobile plastic parts) are different in multiple aspects such as size, hardness or durability. For instance, one of the notable differences is that our existing non-biodegradable products are shaped by moulding and injection machine while biodegradable products are shaped by blowing machine. We set out below a comparison in (i) raw materials, (ii) major machines, and (iii) production process involved between biodegradable plastic products and non-biodegradable automobile plastic parts.

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	Biodegradable plastic products	Non-biodegradable automobile plastic parts
Raw materials	Mainly PLA, PBAT and PBS	Mainly PP and PE
Major machines	Blowing machine	Moulding and injection machine
Production process	<p>Step 1 Different kinds of raw materials are weighed according to the required ratio and being mixed in a screw extruder granulator. Once the process is completed, the biodegradable masterbatches will be stored in the tank.</p> <p>Step 2 Biodegradable masterbatches will be pressurised and heated until they become liquefied and pliable.</p> <p>They are then extruded through a circular die to form a continuous tube of plastic. In the film blowing machine, air is blown through the tube of plastic from the centre of the die, creating a long pliable plastic film in accordance with the size and thickness of the required product. When the plastic film cools down, it is flattened out by rollers and is cut on each side of the film to obtain the required width. The rolls of plastic film are then ready for printing.</p>	<p>Step 1 We prepare the plastic masterbatches based on the specification by mixing different kinds of plastic polymers, pursuant to the required ratio.</p> <p>Step 2 Injection mould is placed into our plastic injection moulding machine, where we set and adjust the production parameters. Plastic masterbatches are heated under controlled conditions until they become liquefied and pliable. The molten plastic would then be injected into the injection mould.</p>

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Biodegradable plastic products	Non-biodegradable automobile plastic parts
<p>Step 3</p> <p>The plastic can then be shaped and cut into the required size and shape based on the use or application.</p> <p>The next step starts with pressing the two printed sheets together to create the sides of the bag in the plastic bag making machine. Additional customisations can be added at this stage, such as hole-punching or customised logo.</p>	<p>Step 3</p> <p>After the injection procedure, the molten plastic is formed into desired shape as restricted by the mould with the application of pressure. We remove all excessive materials on the casting. If the casting does not require any further processing, it is considered finished product and ready for quality inspections.</p> <p>We perform secondary processes on certain semi-finished products (e.g., installation of snap fit joint), depending on the product requirement and customers' request, which allow for easier installation onto the cabin and other parts of vehicles. Not all products require further assembling.</p>
<p>Step 4</p> <p>Testing and quality checks will be performed on samples of the end products before they are delivered for packaging and storage.</p>	<p>Step 4</p> <p>The quality control team performs final inspection of our products to ensure our compliance with the product specifications and quality standards. After the final inspection procedure, we place its products into boxes or on racks for storage and/or delivery.</p>

- Given our biodegradable plastic products were the major revenue drivers of our growth during the Track Record Period, we consider it is essential to expand our production capacity, which allows us to produce more biodegradable plastic products, as to maintain and further strengthen our leading position in Northeast China in view of growing demand in the future.
- Moreover, given that the relevant government authorities in Northeast China continued to announce and implement policies related to the restriction or prohibition of production, sale and use of non-degradable disposable plastic products (such as plastic shopping bags, plastic

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tableware and plastic straws)⁽¹⁾, we believe it is vital for us to expand our biodegradable products offerings to capture potential business opportunities and to diversify our income streams. Therefore, in addition to expanding our production capacity to produce our existing biodegradable plastic products, we also intend to establish new production lines to produce new products, such as biodegradable tableware, biodegradable straws, biodegradable packaging bags and biodegradable agricultural mulch films. As at the Latest Practicable Date, for R&D and trial purposes, we had successfully developed and manufactured biodegradable masterbatches that can be used to produce the abovementioned biodegradable products. Since we already possess the formulae and techniques to manufacture the relevant masterbatches for these biodegradable products, we believe we can materialise our plans once we acquire the necessary machines for producing these new biodegradable products.

Latest developments and estimated timeframe for the production of new products

New Products	Status as at the Latest Practicable Date
Express packaging bags. . . .	We had successfully developed and manufactured biodegradable express packaging bags. The products have already been used by one of our existing customers, Customer U.
Biodegradable tableware and straws	We had successfully developed and manufactured sample products. Sample products have been provided to prospective customers for feedbacks.
Biodegradable agricultural mulch film.	We had successfully developed and manufactured sample products. Sample products have been provided to prospective customers for feedbacks.

- Furthermore, we consider the production formulae of our biodegradable masterbatches and the technical know-how to manufacture reliable, quality and consistent masterbatches our valuable assets. To protect our intellectual property and ensure the quality of our biodegradable masterbatches, we do not intend to move our existing masterbatch production line to or establish new masterbatch production line in our

Note:

- (1) For example, the Implementation Opinions of Liaoning Province on Further Strengthening the Control of Plastic Pollution (遼寧省關於進一步加強塑料污染治理的實施意見) restricts the production, sale and use of certain non-degradable plastic products, and promotes the application of alternative plastic products since August 2020; and the Implementation Plan for Plastic Pollution Control in Heilongjiang Province (黑龍江省塑料污染治理工作實施方案) sets out the provincial government's target to decrease the usage of non-degradable plastic tableware in Heilongjiang province by 2025.

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Huizhou Production Base. The headquarters of our Group will remain in Changchun and our Changchun Production Base will be responsible for supplying biodegradable masterbatches to our Huizhou Production Base. We, therefore, expect the utilisation rate of our masterbatch mixers in Changchun Production Base will continue to grow. Also, in order to cater the anticipated growing demand for biodegradable products in the PRC, we believe it will be in our Group's best interest to purchase additional equipment for our masterbatch production line in Changchun Production Base.

As such, we intend to apply such portion of the net proceeds from the Global Offering in Changchun Production Base as follows:

Description	Approximate amount of net proceeds	Approximate amount which is expected to be settled by our Group's internal resources
(i) purchasing production machines and equipment for masterbatches	RMB8.0 million	RMB4.8 million
(ii) purchasing production machines and equipment for our existing biodegradable plastic products (including biodegradable produce bag rolls, biodegradable shopping bags and biodegradable stretch wraps) . . .	RMB12.3 million	—
(iii) purchasing production machines and equipment for our new biodegradable plastic products production lines (including biodegradable straws, biodegradable tableware, biodegradable packaging bags, and biodegradable agricultural mulch films production lines)	RMB15.4 million	RMB19.2 million
(iv) renovating the production plants and improving the office environment in Changchun Production Base . .	RMB12.0 million	—
(v) recruiting 65 staff members for the operation of our Changchun Production Base	RMB1.8 million	RMB3.7 million
(vi) purchasing additional transportation vehicles to support our operation	RMB2.0 million	—

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Description	Approximate amount of net proceeds	Approximate amount which is expected to be settled by our Group's internal resources
(vii) purchasing quality inspection and control related equipment	RMB3.0 million	—
Total	RMB54.5 million⁽¹⁾, representing approximately 33.3% of the net proceeds from the Global Offering	RMB27.7 million

Huizhou Production Base

- We expect the PRC Government will continue to place emphasis on environmental protection issues, plastic pollution control, and non-degradable plastic ban. Therefore, given that the biodegradable plastic products industry is heavily policy-driven, it is anticipated that the demand for biodegradable plastic products will continue to rise in the foreseeable future. Moreover, local governments across various provinces and cities in Southern China have released policies or regulations in recent years to combat plastic pollution. Details of key favourable PRC Government policies in Southern China are as follows:

Province/ municipal city	Government policies	Announce/ Effective Date	Area of focus
Shanghai	Shanghai Implementation Plan on Strengthening the Control of Plastic Pollution* 《上海市關於進一步加強塑料污染治理的實施方案》	October 2020	It imposed a city-wide ban on (i) the use of non-degradable disposable plastic straws in the catering industry and (ii) the use of non-degradable disposable plastic tableware in restaurants since 2020 and aims to reduce the use of non-degradable disposable plastic tableware in the catering industry by 30% or more by 2025.

Note:

- (1) The total cost for expanding our operation in our Changchun Production Base is approximately RMB83.3 million, of which approximately RMB1.1 million is expected to be settled by our Group by internal resources in 2022 and the first half of 2023.

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Province/ municipal city	Government policies	Announce/ Effective Date	Area of focus
Guangdong	Opinions on Further Strengthening the Control of Plastic Pollution in Guangdong Province* 廣東省《關於進一步加強塑料污染治理的實施意見》	September 2020	These policies imposed a province-wide ban on (i) non-degradable disposable plastic straws in restaurants since 2021 and (ii) non-degradable disposable plastic tableware in restaurants from January 2023 and aim to reduce the use of non-degradable disposable plastic tableware in the catering industry by 30% or more by 2025.
	Catalogue of Plastic Products Banned and Restricted from Production, Sale and Use in Guangdong Province (2020 Edition)* 《廣東省禁止、限制生產、銷售和使用的塑料製品目錄(2020年版)》	September 2020	
Hunan	Implementation Plan for Further Strengthening the Control of Plastic Pollution in Hunan Province* 《湖南省進一步加強塑料污染治理的實施方案》	November 2020	It imposed a province-wide ban on (i) the use of non-degradable disposable plastic straws in the catering industry by the end of 2020 and (ii) the use of non-degradable disposable plastic tableware at restaurants by the end of 2022 and aims to reduce the use of non-degradable disposable plastic tableware in the catering industry by 30% or more by 2025.
Hainan	Regulations on the Prohibition of Single-Use Non-Degradable Plastic Products in Hainan Special Economic Zone* 《海南經濟特區禁止一次性不可降解塑料製品規定》	December 2020	These policies prohibited the production, transportation, sale, storage and use of disposable films and bags containing certain non-biodegradable polymer materials.
	List of Banned Disposable Non-Degradable Plastic Products in Hainan Province* 《海南省禁止生產銷售使用一次性不可降解塑料製品名錄》	December 2020 (First batch)/ September 2021 (Second batch)	

- In addition, as some of our existing customers (including our major customers) have operations in Southeast China and their operations in Southeast China will also require biodegradable plastic products, we believe a regional office in Huizhou (惠州), situated on the Southeast China, adjacent to the Pearl River Delta region, will enable us to expedite further marketing activities in Southeast China's market. Accordingly, we are confident that

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we can establish our presence in the Southeast China by leveraging on our previous success and existing customer network. Additionally, we consider regionalisation is crucial when it comes to business expansion, as local market conditions, business culture, dialect, customer preference in selecting products, government policy and relationship management with customers vary in different regions of China.

Further reasons for establishing new production base in Huizhou

Moreover, other than the growing demand and potential business opportunities in Southeast China, we have considered various factors below and concluded that the benefits of establishing a production base in Huizhou outweighed the extra costs involved:

- (i) lower the operational risk (such as shutdown or transportation delay) of having only a single production base will be too concentrated with the increase in operation scale and national coverage;
- (ii) lower the transportation cost and time cost (a) from Changchun Production Base to Huizhou Production Base, (b) from Changchun Production Base to various major cities in Southeast China, (c) from Huizhou Production Base to various major cities in Southeast China; and
- (iii) lower the chance of product damages during transportation.

Operational risk and the increase in operation scale and national coverage

In the event that there are severe machinery and equipment breakdowns or unexpected disruptions (such as travel restrictions due to COVID-19) at our Changchun Production Base, our new production base in Huizhou (i.e., Southeast China) might serve as a temporary backup production base thereby diversifying from the risk of single production base to ensure our product supply stability.

Moreover, having a production base in the market we intend to penetrate or/and expand into will be crucial as it could facilitate timely communication with customers. This is especially important during the customer acquisition stage for the Huizhou Production Base, as customers might want to conduct factory visits and we will need to deliver product prototypes (which need to be revised over a number of rounds) to potential customers in Southeast China and respond to any of their product adjustment requests to secure the sales orders in a timelier manner.

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Transportation cost and time cost

It is our current strategy to establish a new production base in Huizhou without masterbatches production lines to ensure the mix of masterbatches will be properly handled by Changchun Production Base for consistency and business secrecy.

We consider the production formulae of our biodegradable masterbatches, even though not patented, and the technical know-how into manufacture reliable, quality and consistent masterbatches our valuable assets. To protect our production formulae from possible leakage, the production line of masterbatches will remain in Changchun Production Base.

In other words, the masterbatches required for the production of biodegradable plastic products in Huizhou Production Base will need to be shipped from our Changchun Production Base from time to time. Based on logistics service providers' indicative quotations and the best estimate of our Directors, the transportation time and costs regarding the shipping of products are set out below:

(i) Shipping from Changchun Production Base

The transportation time required for shipping products from Changchun Production Base to major cities in Northeast China⁽¹⁾ will be approximately two days while the transportation time required for shipping products to major cities in Southeast China⁽²⁾ will be approximately seven to nine days. It also takes about seven days to ship masterbatches from our Changchun Production Base to Huizhou Production Base.

(ii) Shipping time from Huizhou Production Base

The transportation time required for shipping products to from Huizhou Production Base major cities in Northeast China will be approximately six to seven days while the transportation time required for shipping products to major cities in Southeast China will be approximately two to four days. No masterbatches will be manufactured in the Huizhou Production Base.

Notes:

- (1) Major cities in Northeast China (excluding Jilin province) are the capital city of each of their respective province i.e., Harbin and Shenyang.
- (2) Major cities in Southeast China are the capital city of each of their respective province i.e., Guangzhou, Nanjing, Kunming, Haikou, Fuzhou and Guiyang.

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(iii) Cost of shipping if we deliver all of our products from Changchun Production Base

Based on logistics service providers' indicative quotations, the cost of shipping products from Changchun Production Base to major cities in Northeast China is lower than that of the same shipping from Huizhou Production Base, while the cost of shipping products from Changchun Production Base to major cities in Southeast China is higher than that of the same shipping from Huizhou Production Base.

(iv) Cost of shipping if we deliver all of our products from Huizhou production base

Based on logistics service providers' indicative quotations, the cost of shipping products from Huizhou Production Base to major cities in Southeast China is lower than that of the same shipping from Changchun Production Base, while the cost of shipping products from Huizhou Production Base to major cities in Northeast China is higher than that of the same shipping from Changchun Production Base.

Chance of product damages during transportation

As stipulated in the national standards GB/T 38082-2019 biodegradable shopping bags shall be transported under specific conditions, including:

- (i) Store in temperature below 50°C;
- (ii) keep away from heat sources;
- (iii) avoid direct sun exposure;
- (iv) avoid getting wet;
- (v) avoid collisions; and
- (vi) avoid contact with sharp-edged objects.

Failure to comply with any of the above conditions might render deterioration of product quality and reduction of shelf life. Given a longer shipping distance increases difficulty for the Company to fully comply with the above requirements, we are of the view that shipping our biodegradable products from Changchun Production Base to Southeast China, though feasible, is not commercially sound considering the above risks.

Reasons for establishing a new production base in Huizhou instead of solely expanding Changchun base considering the slightly higher total cost

Further to the above, although the estimated total cost of (i) shipping masterbatches from Changchun Production Base to Huizhou Production Base; plus (ii) shipping finished products from Huizhou Production Base to major cities in Southeast China will be higher when compared to the

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estimated total cost of shipping finished products from Changchun Production Base to major cities in Southeast China, we believe it is vital to establish a new production base in Huizhou instead of further expanding the Changchun base due to the following reasons:

- (i) reduce operational risk (such as lock down or transportation delay) of having only one single production base in Changchun to serve the entire PRC market. In this regard, we noted that one of its competitors in Southeast China has five production bases: two located in the PRC (Taizhou, Zhejiang province), one in the United States, one in Mexico, and one in Indonesia;
- (ii) facilitate timely communication with prospective Southeast China customers during acquisition stage and respond to any product adjustment requests from them in order to secure the sales orders in a timelier manner;
- (iii) shorten transportation time and cost by delivering from the Huizhou Production Base to various major cities in Southeast China compared to delivering from the Changchun Production Base; and
- (iv) lower the chances of product damage risks during transportation, which tend to increase over distance travelled.

Despite the estimated total cost might be slightly higher, as at the Latest Practicable Date, we are in the preliminary stage of discussion with a logistic service provider in Changchun to secure an annual transportation arrangement for a regular route from Changchun Production Base to Huizhou Production Base for masterbatches. We expect that the terms will be more favourable than the current price level given the dimension of finished products are varied which might trigger additional cost as certain costs are measured by dimensions apart from weight, while masterbatches are normally in resin forms stored in bags. Furthermore, a regular route should be cheaper which would lower cost. In any event, our Directors consider the additional cost (if any) of establishing a base on Huizhou would be outweighed when considering the totality of benefits.

Moreover, according to the Frost & Sullivan Report, the consumption volume of disposable biodegradable plastic products in Southeast China are anticipated to grow at a CAGR of 34.4% and 36.5%, from 2021 to 2026, respectively.

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Taking into consideration of the above-mentioned factors, we intend to apply such portion of the net proceeds from the Global Offering in Huizhou Production Base as follows:

Description	Approximate amount of net proceeds	Approximate amount which is expected to be settled by our Group's internal resources
(i) establishing new production base in Huizhou (惠州) Guangdong province for the production of our biodegradable plastic products (including biodegradable produce bag rolls, biodegradable shopping bags, biodegradable stretch wraps, biodegradable straws, biodegradable tableware and biodegradable agricultural mulch films production lines)	RMB29.5 million	—
(ii) rental payment for Huizhou Production Base	—	RMB10.0 million
(iii) constructing the production plant and office in Huizhou Production Base	RMB18.0 million	RMB4.6 million
(iv) recruiting 55 staff members for the operation of Huizhou Production Base	RMB1.2 million	RMB3.8 million
(v) purchasing transportation vehicles to support our operation	—	RMB2.6 million
(vi) establishing quality control laboratory, purchasing quality control related equipment and hiring quality control specialists	RMB5.7 million	RMB5.0 million
Total	RMB54.4 million, representing approximately 33.2% of the net proceeds from the Global Offering	RMB21.4 million

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Our Huizhou Production Base is expected to commence trial production by fourth quarter of 2023 if the working capital to fund the project can be financed by the net proceeds from the Global Offering. We believe our expansion plan will not only enhance our production capacity and broaden our business coverage in Southeast China but also enable our Group to maintain its competitiveness in the PRC in the future.

For further details, please refer to the subsection headed “— Our Production Facilities — Expansion Plan” in this section.

Reasons to expand in both Northeast and Southeast China

Growing market demand

According to the Frost & Sullivan Report, the PRC market demand for Disposable Biodegradable Shopping Bags have been growing and is expected to continue to grow and reach RMB31,317.4 million⁽¹⁾ in terms of sales revenue by 2026 (i.e., in terms of production volume, approximately 522.0 thousand tonnes). Below we set out the market demand for the respective products in 2021 and the expected demand in 2026 of the respective regions.

	Northeast China		Southeast China	
	Sales Revenue (RMB' in millions)			
	2021	2026E	2021	2026E
Masterbatches	627.8	3,074.7	4,672.2	24,164.8
Express Packaging Bags	33.7	137.7	223.1	993.9
Disposable Tableware	159.3	773.1	1,002.7	5,235.8
Biodegradable produce bag rolls, and biodegradable shopping bags	574.8	2,712.1	3,382.9	17,115.6
Others ⁽²⁾	19.3	51.3	109.4	295.0

Source: Frost & Sullivan Analysis

Notes:

- (1) According to Frost & Sullivan, it is expected that Northeast China and Southeast China would account for approximately 8.7% and 54.7% (i.e., RMB2,712 million and RMB17,116 million), respectively, by 2026.
- (2) Others include agricultural mulch film etc.

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According to Frost & Sullivan, we contributed to approximately 3.6% of the total sales revenue of (i) biodegradable produce bag rolls and (ii) biodegradable shopping bags in China in 2021, and in view of:

- (i) there will be ample and sustainable market demand for biodegradable products in the PRC as a result of favourable government policies that will continue to prohibit or restrict the usage of non-biodegradable plastic in different aspects; currently non-biodegradable plastic products are widely applied in many mass market products such as tableware, straw, glove, mask etc. As these products are not yet included in current market demand forecast, our Directors consider the coming market demand probably will be more than expected if any one of these products will be prohibited in the future;
- (ii) the biodegradable plastic products market in China was relatively fragmented with approximately 1,200 market participants (market data as at 31 December 2021), and currently there is no dominant player with market dominance in the market. Hence, our Directors consider it is time for the Company to take proactive steps to capture additional market share; and
- (iii) assuming the average selling price will not materially change, after the Expansion Plans, it is projected that the Company's (i) biodegradable produce bag rolls and (ii) biodegradable shopping bags will only account for approximately 5.2% (i.e., increased from 3.6% in 2021) of the estimated total sales revenue of the market share in China in 2026.

Therefore, based on the foregoing, our Directors consider the expansion plans are not over optimistic, and are a practical and achievable target. Furthermore, such expansion plans will also help to strengthen the Company's current position in the market.

Feasibility conducted on the market demand with the basis of assumptions

In formulating our expansion plan, we have considered the following with certain key assumptions:

Key consideration

- alternative or substitutable products and direct competitors;
- applications (residential, commercial, and industrial);

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- anticipated future market potential and target customers (based on different geographic regions such as Northeast China and Southeast China);
- distribution channels (such as hypermarkets, supermarkets, online retails, convenience stores, restaurant, coffee shops, clinics, hospital, pharmacy, office, households, schools, industries);
- pricing, market share and sales volume projections;
- projected revenue and cost of sales; and
- government policies and regulations particularly in Northeast China and Southeast China.

Key assumptions

- *Economic growth in China:* Macro economy in China is expected to maintain a stable development trend, with the nominal GDP growing at a CAGR of approximately 7.0% from 2021 to 2026.
- *Raising awareness on environmental issues and climate change:* With raising awareness around environmental and climate change issues, it is expected that the PRC Government will continue to place great efforts to protect the environment.
- *Favourable local government policies:* It is expected the various local government policies will continue to accelerate the development and demand of the biodegradable plastics market in China.
- *Advances in technology:* Our Directors believes that China’s scientific and technological advances will continue to improve, which will lead to a decrease in the cost of manufacturing biodegradable plastics products and drive the sustainable development of the biodegradable plastics market.

Competitive landscape — Northeast China/Southeast China

For the discussion on the market size and competitive landscape of biodegradable plastic products market in Southeast China, please refer to the section headed “Industry Overview” in this prospectus.

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How we will be able to secure orders and compete with existing suppliers of our customers that have indicated a willingness to consider purchasing our proposed new products once Huizhou Production Base commences production

To ensure there will be sufficient demand for our proposed new products once the Huizhou Production Base commences production, we had communicated our intention to extend our business coverage to Southeast China with, and have successfully obtained written indicative confirmations from the following:

<u>Company's name</u>	<u>Existing customers</u>	<u>Product(s) to be procured</u>	<u>Status as at the Latest Practicable Date</u>
Customer Group B	Yes	Company's existing and new biodegradable plastic products	Sample products have been provided for evaluation.
Customer Group C	Yes	Company's existing and new biodegradable plastic products	Sample products have been provided for evaluation.
Customer V	No	Company's existing biodegradable plastic products	Sample products have been provided for evaluation and commenced contract negotiation.

Note:

For the avoidance of doubt, Customer Group B, Customer Group C and Customer V have business coverage in Southeast China.

We believe these companies had expressed willingness to consider purchasing our existing and new biodegradable plastic products for their business operations in Southeast China once the Huizhou Production Base commences production. As at the Latest Practicable Date, we have provided sample to them for evaluation and the parties are in negotiation of the detailed terms of the orders, including quantity and specifications.

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Information of competitors in Southeast China and competitive edge

For illustrative purpose, below we set out the names and the competitive edges of the Company's potential competitors in Southeast China:

<u>Company's Name</u>	<u>Background</u>	<u>Competitive edge</u>
Competitor A	Please refer to Company A as stated in "Industry Overview" section.	Mainly produces biodegradable films, biodegradable commercial and industrial packaging materials, agricultural mulch film etc.
Competitor B	Please refer to Company C as stated in "Industry Overview" section.	Mainly produces advanced blown film and plastic packaging making equipment, export to overseas market and supply various kinds of dissolvable and paper-plastic packaging and plastic packaging products for "Fortune 500" enterprises.
Competitor C	Please refer to Company D as stated in "Industry Overview" section.	Mainly produces biodegradable PLA coated paper cups/bowls/lids, coated paper lunch boxes, cutlery and spoons, straws, etc.; PE coated paper cups/bowls, PP/PET cups/lids, lunch boxes, PS cup lids, etc. Export to overseas market.
Competitor D	Please refer to Company K as stated in "Industry Overview" section.	Mainly produces biodegradable plastic masterbatches (PLA, PBAT based materials) and biodegradable plastic products such as shopping bags and garbage bags. Export to overseas market.

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<u>Company's Name</u>	<u>Background</u>	<u>Competitive edge</u>
Competitor E	Please refer to Company J as stated in "Industry Overview" section.	Mainly produces biodegradable PLA straws, tableware, paper cups and bowls, coffee lids and other biodegradable products, and PP/PET recyclable products (cutlery, packaging container, tableware, etc.) Export to overseas market.

We believe we possess the following competitive strengths over our competitors:-

- (i) *Leading player in the market:* with our leading position in Northeast China and the background of being awarded various recognitions such as "Certificate of Technology Small Giant Enterprise of Jilin Province" and "Provincial Certification Enterprise Technology Centre", we believe we have already established a leading market position and reputation in the industry. On the other hand, the Southeast China market is relatively fragmented and seems lack of any market leader, we believe our Company, as an established market leader in Northeast China, by leveraging our reputation in Northeast China and the industry, can outperform our competitors in Southeast China as we possess comparatively a superior brand image and coverage across the entire PRC market.
- (ii) *Stable business relationships with our customers:* during the Track Record Period, we have recurring sales orders from our customers, contributed to approximately 98.4%, 99.5%, 95.6% and 97.3% of our revenue during FY2019, FY2020, FY2021 and 9M2022. We consider this demonstrates our ability to provide stable and consistent quality of products to our customers. Moreover, some of our recurring customers have national presence across China and we consider these companies are very likely to purchase our existing and new biodegradable plastic products for their business operations in Southeast China once our Huizhou Production Base commences production. To our best knowledge, we observe some of our competitors in Southeast China are more focus in exporting their products overseas and serving overseas customers (such as (i) Competitor C, where 50%–80% of their revenue are generated from overseas market

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during FY2019–FY2021, and (ii) Competitor E, where over 80% of their revenue are generated from overseas market during FY2019–FY2021)⁽¹⁾. Hence, our competitors might place more focus and priority on the overseas market instead of local PRC market.

- (iii) *New production base in Huizhou*: once our Huizhou Production Base commences production, we will have one production base in Changchun and another one in Huizhou, we believe such arrangement would reduce our operational risk (such as lock down or transportation delay) of having only a single production base to serve the entire PRC market. Moreover, this will facilitate timely communication with prospective Southeast China customers and shorten transportation time and cost against some of our competitors in Southeast China. Given some of our competitors have only one production base (or several production facilities within the same area), we consider in the event that such production base was shut down or experienced any transportation difficulties, it is very likely their entire production could be paralysed.
- (iv) *Product diversification*: our Directors believe via adding new products to our product portfolio, it will allow us to have greater chances of reaching a wider audience, improve customer visibility and credibility in the market, this will also help us to get a firmer hold of our current market for our existing products. Moreover, our Directors believe adding new product will decrease our customer retention costs and increase customer stickiness. We observe that some of our Southeast China competitors are only able to offer a limited selection of their products, while we will be able to provide a wide range of product selection, ranging from shopping bag to agricultural mulch film, tableware and logistics packaging bags. We consider expanding our portfolio can help us to maintain traction in the industry and decrease product reliance risk if any one of our products becomes obsolete or uncompetitive on the market.

Low switching cost for our prospective customers in Southeast China to use our products

We consider the switching cost for our prospective customers in the Southeast China market to use our products are low given (i) it is not common in the industry to sign any long-term sales framework agreement with the supplier; (ii) although there are some non-monetary switching cost (such as psychological and time-based) and potential risks of switching to a new supplier, given the nature and the specification standardisation of shopping bags and produce bag rolls, such potential risks are minimal; and (iii) in the absence of any tight connection between our

Note:

- (1) Information for Competitor D's overseas sales is not available in the public domain.

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prospective customers and their current suppliers (i.e. our competitor), we believe we have the ability to persuade our prospective customers in the Southeast China market to use our products as we have established a reputation in serving, and are experienced and capable in serving large-scale supermarket chains, department stores, and outlets.

Strategies to compete with and capture the market demand in Northeast China and Southeast China

In view of the growing economic development and the implementation of environmental protection-related policies in China, together with the business performance of our Company during the Track Record Period, our Directors formulated the following strategies to compete and capture the market demand in Northeast China and Southeast China.

(1) Leveraging on our established clientele

We are confident to solicit and secure further business opportunities by leveraging on our existing customers, some of which have nationwide coverage and businesses to which our new products (e.g., biodegradable tableware) target. For example, among our major customers during the Track Record Period, Customer Group A⁽¹⁾, Customer Group B⁽²⁾ and Customer Group C⁽³⁾, are all listed companies with nationwide distribution networks and businesses related to the food and beverages industry. Furthermore, we also have other non-listed customers with nationwide coverage, which have stable business relationship with us since 2016, such as Customer Group D⁽⁴⁾.

We have also communicated our intention to extend business coverage to Southeast China and to manufacture biodegradable plastic products for our customers. Customer Group B and Customer Group C have expressed their willingness to consider purchasing our existing and new biodegradable plastic products for their business operations in Southeast China once the Huizhou Production Base commences production, and we have obtained written indicative confirmations from them.

Notes:

- (1) Customer Group A comprises 13 companies and two branch companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with Customer Group A is presented on common controlling party group basis. For details, please refer to the “— Our Major Customers” in this section.
- (2) Customer Group B comprises five companies and three branch companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with Customer Group B is presented on common controlling party group basis. For details, please refer to the “— Our Major Customers” in this section.
- (3) Customer Group C comprises one company and four branch companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with Customer Group C is presented on common controlling party group basis. For details, please refer to the “— Our Major Customers” in this section.
- (4) Customer Group D comprises a company established in the PRC and one of its branches.

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Our Directors believe that we would be able to secure further business opportunities from these customers through continuous marketing efforts, in pace with the development of the Huizhou Production Base.

(2) Establish our presence in other regions of China

We intend to establish our presence and recognition in other regions of China by adhering to the following principles.

(a) Solidify our market share in Northeast China

Since March 2014, our Company has established a solid position in Northeast China, with its headquarters located at Changchun. The headquarters will be responsible for key and overarching strategic management and overall coordination of the other regional offices. It will also focus on the sales and marketing activities in (i) Northeast China, (ii) North China and (iii) Central China regions. Leveraging on our success, established sales network in Northeast China and our Pre-IPO investors' extensive network of business contacts and relationships, our Company intends to commit further resources to develop new products (e.g. agricultural mulch film, tableware and logistics packaging bags) and enhance our existing products. Our Directors are of the view that these strategies would allow us to expand our market share in other provinces in Northeast China (such as Heilongjiang and Liaoning).

(b) Time efficiency and stable product supply

Given the growing market demand for biodegradable plastic products in China and to sustain the Company's revenue growth, in addition to expanding the Changchun production base, the Company plans to establish a new production base in Huizhou, Guangdong. Products manufactured in the Huizhou Production Base are targeted for sale in the Southeast China regions such as Guangdong province, Guangxi Zhuang Autonomous Region, Fujian province, Hainan province, Yunnan province and Guizhou province, while products from Changchun Production Base are targeted for sale in the Northeast China, North China and Central China regions. By having a production base in Huizhou, our Company intends to penetrate and expand its market coverage and reduce the required time for shipping and logistics costs. Moreover, in the early stage of customer engagement, our Company often has to deliver product prototypes to potential customers, and by having a production base in Southeast China, our Company can respond to product adjustment requests from our clients located in Southeast China in a timely manner.

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Also, in the unlikely event that there are machinery and equipment breakdowns or unexpected disruptions (such as travel restrictions due to COVID-19) in our Changchun production base, the Company's new production base in Huizhou (i.e., Southeast China) might serve as a temporary backup production base thereby diversifying from the risk of single production base to ensure the Company's stability of product supply.

(c) Three offices in different regions/Extended business coverage

Apart from our Changchun headquarters to cover Northeast China, we strategically established two more offices in Shenzhen and Yizheng to cover Southern and Central China.

The offices in different regions can (i) strengthen our Company's brand name; (ii) reduce market information asymmetries by providing up-to-date requisite location-bound market insight and knowledge; (iii) enhance our Company's understanding of the needs and preferences of regional customers; (iv) serve as a business hub for the sales and marketing team to approach clients; and (v) showcase our Company's products to the regional customers.

(3) Capitalise on our products and market experience in the biodegradable plastic products industry

Our management team has extensive experience in the biodegradable plastic products market. Our founders, Mr. Shan and Ms. Zhang, have years of experience in the biodegradable plastic products manufacturing and logistic industries. Our Company contributed to the discussion and drafting of GB/T 38082-2019 standard which positively impacts the Company's reputation and credibility. Our Directors believe that those previous accomplishments and the relevant technical know-how to manufacture reliable, quality and consistent masterbatches will continue to benefit the Company in expanding into other regions of China.

Our strategies to capture the market demand from and compete with existing market players in Southeast China

Although no formal contract has been signed (unlike Customer Group B, Customer Group C and Customer V above), given we have maintained long and stable relationships with our existing customers set out below, we consider these companies will likely purchase our existing and new biodegradable plastic products for their business operations in Southeast China once the Huizhou Production Base commences production.

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Name	Background	Business relationship since
Customer Group D	Located in Jilin Province with a registered capital of RMB100 million and their principal business is mainly operation of cattle processing business.	2016
Customer W	A limited company with a registered capital of approximately USD680 million and its principal business is mainly operation of hypermarkets and e-commerce platforms in China.	2018
Customer X	A limited liability company located in Jilin Province with a registered capital of RMB380 million and its principal business is mainly sales of pre-packaged and bulk food.	2019
Customer Y	A limited liability company located in Guangdong Province with a registered capital of approximately USD278 million and its principal business is mainly domestic trade agency, the sales of medical equipment and daily necessities.	2019

Note:

For the avoidance of doubt, Customer Group D, Customer W, Customer X and Customer Y have business coverage in Southeast China.

In terms of business coverage, apart from its Changchun headquarters to cover Northeast China market, we have strategically established a branch office in Shenzhen to cover Southeast China. We consider the branch office in Shenzhen can:

- (i) strengthen the Company's brand name and capture the market demand for the Group's products in Southeast China by establishing a strong local business network;
- (ii) reduce market information asymmetries by establishing a communication channel between our Group and the local market and providing up-to-date requisite location-bound market insight and knowledge;

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- (iii) enhance the Company's understanding of the needs and preferences of Southeast China customers by attending local networking events and developing business relationship with the local market players;
- (iv) serve as a business hub for the sales and marketing team to approach prospective customers in Southeast China by injecting more resources and human capital into expanding the local business network;
- (v) showcase the Group's products to the Southeast China customers by conducting different types of promotion and marketing for the Group's products in the local regions; and
- (vi) liaise with the local government in Southeast China and request potential financial and regulatory support therefrom.

In addition to the Shenzhen branch office, we consider that during the customer acquisition stage, the Huizhou Production Base will allow the Company to deliver its product prototypes to potential customers in Southeast China and respond to any of their product adjustment requests to secure the sales orders in a timelier manner.

Apart from the above, through existing customers' referral, we engage in frequent contact with prospective customers through phone calls and visits. We intend to promote its brand and products through, amongst others, participating in domestic exhibitions and trade fairs, joining industry associations, and attending industry conferences.

Future plan for allocating and managing the production of masterbatches to be sold to customers versus self-use

Prior to FY2021, we did not sell masterbatches to its customers, and we only started to sell masterbatches in FY2021. During 9M2022, approximately 96.5% (FY2021: 97.1%) of the masterbatches we produced (in terms of volume) were for self-use and only 3.5% (FY2021: 2.9%) were for selling to other plastic product manufacturers.

Based on the current projection in FY2023, our Directors consider a substantial amount of the production of masterbatches will be self-use. Our Directors consider no more than 5.0% we produced (in terms of volume) will be sold to external customers.

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Future plan and positioning for our non-biodegradable automobile plastic parts business

We are not intended to allocate any proceeds raised from the Global Offering to the non-biodegradable automobile plastic parts business. However, we will continue to operate this business segment due to the following reasons:

- (i) *Performance of the business:* Although the business segment of non-biodegradable automobile plastic parts contributed lesser revenue, it recorded profit during the Track Record Period. Hence currently we have no intention to suspend this business segment in view of business diversification. For 9M2022, the revenue contributed by non-biodegradable automobile plastic parts products was approximately 7.1% (9M2021: 6.9%).
- (ii) *Establish relationship with automobile plastic products manufacturers:* We started our cooperation with Changchun Hengxing and Customer Z since 2014 and 2015, respectively, when Ms. Zhang and Mr. Shan founded Jilin Kaishun. Our Directors submit that we have gradually formed a stable business relationship with these automobile plastic manufacturers. For instance, our Directors consider it takes time for companies to identify reliable supplier and customer with acceptable purchase amount and price.
- (iii) *Increasing use of plastics in automotive manufacturing:* According to the Frost & Sullivan Report, automotive manufacturers are becoming increasingly dependent on using plastic parts, given that it is lightweight (hence burning less fuel and emitting less greenhouse gas), cheaper and that they can be easily moulded and replaced.
- (iv) *Current technology constraint:* According to Frost & Sullivan, currently there is only a limited number of PRC manufacturers possess the technology to manufacture biodegradable automobile plastic parts, the use of non-biodegradable automobile plastic parts currently still prevails in the PRC.
- (v) *Future vision:* notwithstanding point (iv) above, in the view of the raising awareness on environmental and climate change issues, it is expected that the PRC Government will continue to place great efforts to protect the environment, thus the Directors consider bio-degradable plastics will be one of the future trends for automobile parts.

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Possibility of manufacture automobile plastic parts with our biodegradable masterbatches

Our Directors are of the view that currently it is technically not practical nor commercially feasible to manufacture automobile plastic parts with our biodegradable masterbatches due to properties constraints (hardness, heat resistant, etc). Currently, the raw materials of our biodegradable plastic products are mainly PBAT, PBS and PLA. While the characteristics of these raw materials are suitable for producing our biodegradable plastic products, they are not suitable (at this stage) for the production of automotive plastic parts as our current technology cannot utilise these raw materials in such a way that they can achieve the required level of impact strength, heat resistance, flame retardance, surface hardness and UV resistance of automobile plastic parts, which could only be achieved by using masterbatches produced by non-biodegradable ingredient, such as PP.

Furthermore, bioplastic such as PLA costs more than traditional plastic. Without government policy support, the demand for biodegradable plastic car components used in automotive manufacturing will not rise notably in comparison to the demand for our other biodegradable plastic products used in the general consumer market.⁽¹⁾ Considering the costs required in the R&D of biodegradable automobile plastic parts and the expected demand in the near term, our Directors are of the view that it is not commercially justifiable and not practicable to convert our existing biodegradable plastic production lines into those for the production of biodegradable automobile plastic parts.

Although we do not possess the necessary technique to manufacture biodegradable automobile plastic parts, our Directors will keep abreast of any new technology for manufacturing biodegradable automobile plastic parts products while committing to continue our early business of manufacturing non-biodegradable automobile plastic parts, as we consider biodegradable automobile plastic parts might become a trend in the near future.

Note:

- (1) According to Frost & Sullivan, current anti-plastic policies from China focus on restricting single-use plastic products such as plastic bags and straws, while the restrictions on other plastic products (such as automobile part or components) are not as stringent as those on single-use plastic products.

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Strengthening our R&D capabilities, upgrading our existing R&D equipment, financing our R&D projects and expanding our product portfolio

Collaboration with CIAC (中國科學院長春應用化學研究所)

We have experience in improving our production techniques and developing new biodegradable plastic products by collaborating with CIAC. For example, we commenced to cooperate with CIAC to research on new technologies for the improvement of production techniques and development of new biodegradable plastic products before the Track Record Period.

Recruitment and facilities upgrade

Moreover, we believe that R&D is crucial in maintaining our competitiveness. We plan to develop our internal R&D team by recruiting R&D specialists and upgrade our existing R&D equipment by procuring new machines.

Our plan

In view of the abovementioned, we intend to apply approximately RMB43.1 million, representing approximately 26.3% of the net proceeds from the Global Offering as follows:

- approximately 21.4% or RMB35.0 million will be spent on 7 R&D projects to improve our production techniques and develop new products (the total cost for these projects are approximately RMB45.5 million). For details of the R&D projects we collaborated with CIAC, please refer to the subsection headed “— Research and development” in this section;
- approximately 3.7% or RMB6.1 million will be used for upgrading our existing R&D equipment and expanding our R&D laboratory by procuring new machines; and
- approximately 0.6% or RMB1.0 million will be used for recruiting R&D specialists.

We consider the abovementioned R&D projects and investment in our equipment and R&D personnel to be value-adding to our business in the long run. In order to enhance our existing biodegradable products and develop new biodegradable products, the Company intends to purchase new R&D equipment for our Changchun Production Base and Huizhou Production Base. The following tables set out the R&D machines we intend to procure as at the Latest Practicable Date:

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Changchun Production Base

R&D equipment category	Details	Number of equipment involved
(1) . . R&D equipment to test the basic qualities of our biodegradable plastic products	Equipment to test various basic attributes of our biodegradable plastic products such as thickness, tearing strength, impact resistance, light transmittance, weight, moisture content, ageing process under UV light, hardness, hygiene, vertical vibration fatigue and infrared absorption.	22
(2) . . R&D equipment to test the permeability of our biodegradable plastic products	Equipment to test gas and water vapour permeability of our biodegradable plastic products.	4
(3) . . R&D equipment that utilises thermal energy to test our biodegradable plastic products	Equipment to conduct tests on our biodegradable products to determine (i) heat shrinkage performance, (ii) heat distortion temperature, (iii) flow rate of melt mass and volume, (iv) drying constant temperature, (v) ageing process under high temperature, and (vi) different material components.	12
(4) . . R&D equipment to test our biodegradable plastic films	Equipment to test the tensile and peel strength, smoothness, and pendulum impact resistance of our biodegradable film products.	6
(5) . . R&D equipment to test our biodegradable plastic packaging	Equipment to test the sealing strength and ink fastness of our biodegradable plastic packaging materials.	10

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Huizhou Production Base

R&D equipment category	Details	Number of equipment involved
(1) . . R&D equipment to test the basic qualities of our biodegradable plastic products	Equipment to test various basic attributes of our biodegradable plastic products such as thickness, tearing strength, impact resistance, light transmittance, weight, moisture content, ageing process under UV light, hardness, hygiene, vertical vibration fatigue and infrared absorption.	11
(2) . . R&D equipment to test the permeability of our biodegradable plastic products	Equipment to test gas and water vapour permeability of our biodegradable plastic products.	2
(3) . . R&D equipment that utilises thermal energy to test our biodegradable plastic products	Equipment to conduct tests on our biodegradable products to determine (i) heat shrinkage performance, (ii) heat distortion temperature, (iii) flow rate of melt mass and volume, (iv) drying constant temperature, (v) ageing process under high temperature, and (vi) different material components.	6
(4) . . R&D equipment to test our biodegradable plastic films	Equipment to test the tensile and peel strength, smoothness, and pendulum impact resistance of our biodegradable film products.	3
(5) . . R&D equipment to test our biodegradable plastic packaging	Equipment to test the sealing strength and ink fastness of our biodegradable plastic packaging materials.	5
(6) . . R&D equipment for the production of our biodegradable plastic products	Equipment to improve and fine-tune the production process of our biodegradable plastic products such as stretch wraps, straws, and tableware.	10

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The scope of our R&D projects is tailored to enhance our production techniques and expand our biodegradable plastic products portfolio. The following table sets out the R&D projects we had commenced or anticipated to commence with CIAC as at the Latest Practicable Date:

Year of commencement of the project	Name of the Project	Details of research and its targeted results	Expected year of completion
2021	Blown film resin compositions and film conformation (吹膜樹脂組成與薄膜構效)	Blown film resin mainly comprises PBAT, PLA, starch, calcium carbonate and various additives. PBAT, PLA and starch are all biodegradable. As the prices of starch and calcium carbonate are low, the cost of blown film resin and film bag products can be reduced substantially by incorporating these two ingredients. The project aims to research the biochemical relationships of the ingredients to uncover their synergy such that we can obtain low-cost and fully biodegradable blown film resin and film bag products.	2023
2022	Injection moulding resin and products (注塑樹脂及製品)	This project aims to study how to replace non-degradable injection moulding products with biodegradable injection moulding products such as lunch boxes, serving trays and tableware using PLA and PBS by using injection moulding. We conduct this research because of their tremendous market demand and compliance with social development regarding their application prospect.	2022 ⁽¹⁾
2023	Composition and properties of resins for biodegradable injection moulding (注塑專用樹脂組成與性能構效)	Injection moulding resin mainly consists of PLA, PBS, starch, calcium carbonate, talcum powder and various additives. As the prices of starch, calcium carbonate and talcum powder are low, the cost of injection moulding resin products can be reduced substantially by incorporating these three ingredients. Furthermore, starch also enhances the degradability of injection moulding resin products. This project aims to research the biochemical relationships of these ingredients to uncover their synergy to obtain low-cost biodegradable injection moulding resin and injection moulding products.	2023

Note:

(1) This project is completed at the Latest Practicable Date.

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Year of commencement of the project	Name of the Project	Details of research and its targeted results	Expected year of completion
2023	Industrialisation technology of low-cost PBAT/PLA/starch membrane (低成本PBAT/PLA/澱粉膜的產業化技術)	Blown film resin mainly comprises PBAT, PLA, starch, calcium carbonate and various additives. As the price of starch is low, the cost of blown film resin and film bag products can be reduced substantially by incorporating it. Starch also enhances the degradability of films and heat seal strength of film bags. The project is an innovative project which aims to uncover the synergy of PBAT, PLA, starch and various additives, in addition to processing with a twin-screw reactive blending extruder to develop low-cost and fully biodegradable blown film resin and film bag products.	2024
2024	PBAT/PLA/PPC blown film resin and bag making technology (PBAT/PLA/PPC吹膜樹脂及製袋技術)	Blown film resin mainly consists of PBAT, PLA, PPC and various additives. PBAT, PLA and PPC are all biodegradable. PPC substantially enhances the stretchability of films. This project aims to achieve synergy of PBAT, PLA, PPC and various additives to obtain anti-ageing, fully biodegradable blown film resin and film bag products and a complete set of industrialisation technology.	2024
2024	Low-cost injection moulding process (低成本注塑製品成型加工)	Low-cost injection moulding products mainly consist of PLA, PBS, calcium carbonate, talcum powder and various additives. PLA and PBS are all crystalline plastics, and the crystallisation of PLA is slow and needs to be accelerated. By adding an efficient nucleating agent, heat endurance of injection moulding products, the crystallinity of PLA and PBS and impact strength and heat endurance of injection moulding can be enhanced. The heat deflation temperature of injection moulding products can also be increased. This project aims to research the synergy of PLA, PBS, calcium carbonate, talcum powder and various additives to obtain low-cost biodegradable injection moulding resin and injection moulding products and a complete set of industrialisation technology of injection moulding products.	2024

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Year of commencement of the project	Name of the Project	Details of research and its targeted results	Expected year of completion
2024	PBAT/PLA/PPC agricultural mulch resin and blown film (PBAT/PLA/PPC地膜專用樹脂及吹膜)	Blown film resin mainly consists of PBAT, PLA, PPC and various additives. PLA increases the stretchability, transparency and tensile modulus of film, which are required for agricultural mulch films. PPC substantially enhances films' blocking ability and moisture retaining capacity, extending the ageing cycle for agricultural mulch films. This project aims to optimise PBAT, PLA, PPC and various additives to obtain fully biodegradable blown film resin and agricultural mulch products.	2024
2024	Optimisation of injection moulding resin and product technology (注塑樹脂及製品技術優化)	Injection moulding resin mainly consists of PLA, PBS, PBAT, starch, Calcium Carbonate, talcum powder and various plastic additives. PLA increases the hardness and transparency of injection moulding product, PBS enhances the impact strength and heat resistance as well as the heat deflection temperature, while PBAT improves the impact strength of injection moulding resin. This project aims to synergise the ingredients of injection moulding resin to improve the time for injection moulding and achieve crystallisation under different temperature within the injection mould, to enable us to obtain low-cost biodegradable injection moulding resin and injection moulding products.	2024

During the Track Record Period, we received feedbacks on our products from our customers and our management, including but not limited to (i) the quality and performance of our products; (ii) the manufacturing process; and (iii) comments from the end-users. The nature of the abovementioned R&D projects is determined after taking into account these feedbacks and comments.

Furthermore, we believe that these R&D projects can improve our internal production efficiency and the quality of our products, and thereby adding value to the Group's business and enhancing the competitiveness of our Group in the long run.

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Strengthening our IT system and increasing our operation efficiency

As we continue to expand our business, we believe the possession of an up-to-date IT system is essential for our business operations as an effective IT system can upgrade our overall efficiency in our management, production operation and day-to-day operations. In particular, our focus is to enhance our existing setup by:

- upgrading, developing and integrating
 - (i) our internal operational reporting system to enhance the operational efficiency and management needs in monitoring the performance of different departments across various regions (including our Northeast head office, Yizheng branch office, Shenzhen office and Southeast branch office); and
 - (ii) a cloud-based financial reporting system to match with our enhanced operational reporting system as set out in (i) above such that updated financial information could be analysed with the operating information.
- purchasing and upgrading our hardware and relevant IT equipment to align with these enhanced systems and software upgrades.

In order to fulfil the abovementioned objectives, we plan to apply approximately RMB5.0 million, representing approximately 3.0% of the net proceeds from the Global Offering, to upgrade our IT system.

We are of the view that upgrading our IT system will allow us to (i) increase the efficiency of our overall business operations; (ii) strengthen our control and management in different departments across various regions; and (iii) lower our management and administrative expenses in the long run.

For details of our use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

OUR BUSINESS MODEL

We principally develop and manufacture biodegradable plastic products with our business operations located in Northeast China, the PRC. We also engage in the development and manufacturing of non-biodegradable automobile plastic parts such products only accounted for 5.4%, 10.0%, 7.0% and 7.1% of our revenue during the Track Record Period. Our biodegradable plastic products mainly comprise (i) biodegradable produce bag rolls; (ii) biodegradable shopping

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bags; and (iii) biodegradable stretch wraps. During the Track Record Period, 90.0% or more of our revenue was generated from the sales of biodegradable plastic products. The customers of our biodegradable produce bag rolls and biodegradable shopping bags are mainly supermarket chains, department stores and outlets. To a lesser extent, we also sell our biodegradable shopping bags to hospitals, clinics and pharmacies for medical packaging use. Moreover, we sell our biodegradable stretch wraps to automobile components companies, and food and beverages companies for stretch wrapping the pallets after cargos are loaded onto the pallets.

The following table sets forth the breakdown of our revenue by products during the Track Record Period:

	FY2019		FY2020		FY2021		9M2021		9M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	(unaudited)		RMB'000	%
Biodegradable plastic products										
— Produce bag rolls	56,673	55.2	94,862	56.9	124,942	48.7	92,271	48.5	96,514	45.1
— Shopping bags	40,320	39.3	54,349	32.6	108,154	42.1	82,645	43.4	96,515	45.1
— Stretch wraps	207	0.1	857	0.5	1,698	0.7	1,098	0.6	1,621	0.8
— Masterbatches	—	—	—	—	3,979	1.5	1,124	0.6	4,222	2.0
Sub-total	97,200	94.6	150,068	90.0	238,773	93.0	177,143	93.1	198,872	92.9
Non-biodegradable automobile plastic parts	5,500	5.4	16,654	10.0	17,967	7.0	13,119	6.9	15,239	7.1
Total	102,700	100.0	166,722	100.0	256,740	100.0	190,262	100.0	214,111	100.0

During the Track Record Period, all our products were sold to our customers in the PRC, mainly in Northeast China. The following table sets forth the breakdown of our revenue by geographical locations, based on the registered address of the relevant contractual party, during the Track Record Period:

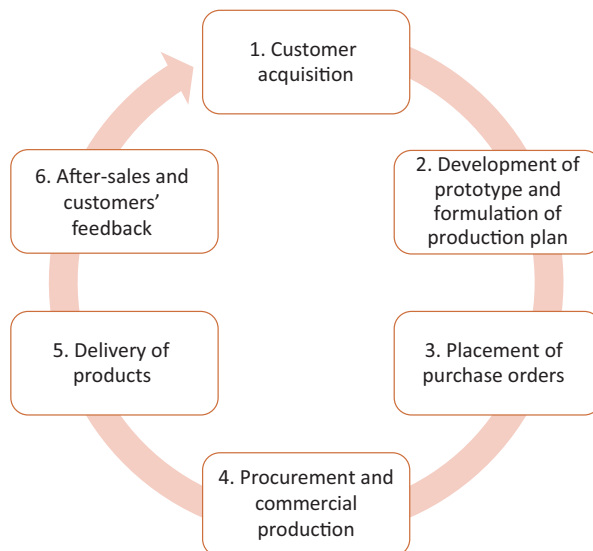
	FY2019		FY2020		FY2021		9M2021		9M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	(unaudited)		RMB'000	%
Northeast China	80,118	78.0	132,144	79.3	200,995	78.3	150,720	79.2	165,650	77.4
— Jilin province	77,589	75.5	126,441	75.8	194,326	75.7	146,065	76.8	158,990	74.3
— Heilongjiang province	2,435	2.4	5,526	3.3	6,188	2.4	4,655	2.4	6,034	2.8
— Liaoning province	94	0.1	177	0.1	481	0.2	—	—	626	0.3
Others ⁽¹⁾	22,582	22.0	34,578	20.7	55,745	21.7	39,542	20.8	48,461	22.6
Total	102,700	100.0	166,722	100.0	256,740	100.0	190,262	100.0	214,111	100.0

Note:

(1) Others mainly include Beijing, Shandong province, Zhejiang province, Shanghai and Guangdong province, the PRC.

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The key phases of our business operations are as follows:



Phase 1: Customer acquisition

Our sales team typically calls and visits our customers to promote our products. We also promote our products and reach out to potential customers through, amongst others, joining events and meetings organised by industry associations such as Degradable Plastics Committee of China Plastic Processing Industry Association and the Changchun Die & Mould Industrial Association. Our potential customers may contact our sales team and request for information directly. During the customer acquisition process, our sales team will gather background information of the customers, including their contact details, corporate information and scale of operation (where available).

Phase 2: Development of prototype and formulation of production plan

Our sales team will liaise with the customers to understand their specific requirements and inform our R&D department of such specifications, such as the size, thickness, colour, weight holding capacity, tear resistance and light transmittance. Our R&D department will then adjust the formula for production based on the product specifications to the extent permitted by the relevant standard, and formulate, together with our sales team, a proposal on the development of the product in order to fulfil the customers' requirements.⁽¹⁾ Prototype will be produced for customers' examination and selection. At the same time, our production team will formulate a production plan and prepare for commercial production.

Note:

- (1) For example, the structural properties of PBAT can be strengthened or reinforced by the incorporation of Calcium Carbonate. Likewise, the transparency properties of PLA can be varied by adjusting the relative content of the D-isomers and L-isomers within the PLA.

BUSINESS

Phase 3: Placement of purchase orders

If our customers accept our prototypes, we will provide fee quotation to the customers. Our customers generally enter into one-year framework sales agreements with us and place orders with us for each time of purchase. Our sales team communicate with our customers on the terms of each purchase order, including the pricing, quantity and payment terms. For details on the salient terms of the sales agreements, please refer to the subsection headed “— Our Sales and Customers — Sales Negotiation and Sales Agreement” in this section.

Phase 4: Procurement and commercial production

After our customers place the purchase orders, our sales personnel will liaise with the production department for commercial production and co-ordinate with the procurement department to procure the relevant raw materials (if necessary). For details in relation to our procurement process, please refer to the subsection headed “— Raw Materials and Major Suppliers — Procurement Planning” in this section.

Prior to product delivery, our quality control department conducts internal inspection on a sampling basis to ensure that their specifications and functions meet our customers’ requirements and comply with the relevant national standards.

We implement quality control measures covering our major steps of operation, starting from the selection of suppliers, and ensure that the production process is carried out properly and that there are no material defects which may undermine the quality of our products. For details of our quality control measures, please refer to the subsection headed “— Quality Control” in this section.

Phase 5: Delivery of products

After completing the manufacturing process of our products, we deliver products that pass our internal inspection to our customers. Pursuant to the sales agreements, we are generally responsible for arranging delivery of our products to the location designated by our customers. In general, we arrange our own transportation fleet for delivery of our products to the locations within Jilin province⁽¹⁾. As of the locations outside of Jilin province, we rely on third-party logistics service providers, which are Independent Third Parties, to deliver our products to our customers. We generally enter into transportation service contracts with these logistics service providers for a term of one year and renew their contracts upon expiry. For details in relation to the terms of these transportation service contracts, please refer to the subsection headed “— Our Sales and Customers — Delivery and Logistics” in this section.

Note:

- (1) On a needed basis, we might arrange for third-party logistics service providers to deliver our products within Jilin province.

Phase 6: After-sales and customers' feedback

Upon request by our customers, our sales team may provide after-sale services, such as checking the products delivered if there is any potential quality issue. In such cases, our sales team will call and visit our customers to collect their feedback on our products (which also include the feedback from end-users of those biodegradable produce bag rolls and biodegradable shopping bags), and report to our management team. Our management team will meet regularly with the department heads to discuss various topics such as how to enhance our products, production and/or services, so as to address our customers' feedback. We believe this follow-up exercise can strengthen our relationship with our customers and encourage recurring orders.

OUR PRODUCTS

The PRC government has put great emphasis on controlling plastic pollution in recent years. The differences between non-degradable, degradable, and biodegradable plastic products depends on the way to decompose or breakdown. Non-degradable plastic products are plastic products that are incapable of being broken down into simple compounds. Degradable plastic products are plastic products that will decompose or breakdown with the passage of time. Biodegradable plastic products are plastic products that can be degraded naturally through living organisms/bacteria, regardless of the original material from which it derives.

During the Track Record Period, we principally developed and manufactured biodegradable plastic products in Northeast China. Our biodegradable plastic products mainly comprise (i) biodegradable produce bag rolls; (ii) biodegradable shopping bags; and (iii) biodegradable stretch wraps. The customers of our biodegradable produce bag rolls and biodegradable shopping bags are mainly supermarket chains, department stores and outlets. To a lesser extent, we also sell our biodegradable shopping bags to hospitals, clinics and pharmacies for medical packaging use. Moreover, we sell biodegradable stretch wraps to automobile components companies, and food and beverages companies for stretch wrapping the pallets after cargos are loaded onto the pallets.

Our biodegradable plastic products generally after a few months in landfill would react with bacteria, biomass and microorganisms and would begin to decompose. Our Directors consider that our biodegradable shopping bags are considered as fast-moving products which are normally consumed quickly at a relatively low cost. Furthermore, in contrast to conventional non-biodegradable plastic products, our biodegradable plastic products can be more easily decomposed.

During the Track Record Period, 90% or more of our revenue was generated from the sales of biodegradable plastic products, whereas only not more than 10% of our revenue was generated from the sales of non-biodegradable automobile plastic parts.

BUSINESS

Below are extracted examples and photos ⁽¹⁾ of our products:

1. Biodegradable produce bag rolls



Product Name	Produce bag rolls
Major ingredients	PLA, PBAT and PBS ⁽²⁾
Nature	Biodegradable
Standard	National standard “GB/T 33798-2017”
Description	The product can be biodegraded after a few months in landfill. Typical customers are supermarket chains. Suitable for fruits, vegetable, bread, and food storage. Generally, produce bag rolls are provided to end users (i.e., consumers in supermarkets) for free.



Notes:

- (1) Sensitive information in the photos is redacted as appropriate.
- (2) The properties of the end product will vary according to different composition of these ingredients and/or other additives and the manufacturing processes. A typical biodegradable produce bag roll is approximately 80% composed of PLA, PBAT and PBS mixture and/or other additives. The ingredient composition of biodegradable produce bag rolls and biodegradable shopping bags are similar.

2. Biodegradable shopping bags



Product name
Major ingredients
Nature
Standard
Description

Shopping bags
PLA, PBAT and PBS ⁽¹⁾
Biodegradable
National standard “GB/T 38082-2019”
The product can be biodegraded after a few months in landfill. Typical customers are supermarket chains, department stores and outlets. Generally, supermarket chains, department stores, and outlets will charge their customers when offering these shopping bags.



Note:

- (1) The properties of the end product will vary according to different composition of these ingredients and/or other additives and the manufacturing processes. A typical biodegradable shopping bag is approximately 80% composed of PLA, PBAT, PBS mixture and/or other additives. The ingredient composition of biodegradable produce bag rolls and biodegradable shopping bags are similar.

3. Biodegradable plastic stretch wraps



Product Name	Stretch wraps
Major ingredients	PLA, PBAT, Starch Mixture
Nature	Biodegradable
Standard	Not applicable
Description	We introduced this product in FY2019. Typical customers are automobile components companies and food and beverages companies. Suitable for stretch wrapping the pallets after cargos are loaded onto the pallets.



4. Biodegradable masterbatches




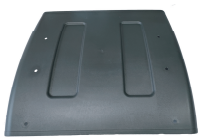


A masterbatch is a mixed plastic pellet that contains different additives and colorants and its properties vary depending on the mixture of additives and colorants, and the requirements of our underlying biodegradable and non-biodegradable plastic products to be produced. The production of masterbatches requires specific technical skills and machinery such as a mixing extruder granulator as the additives and colorants need to be fully mixed into the base polymer homogeneously. We commenced the manufacturing and sales of biodegradable masterbatches in FY2021, which accounted for approximately 1.5% and 2.0% of our revenue for FY2021 and 9M2022, respectively.

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Product Name	Masterbatches
Major ingredients	We manufacture our biodegradable masterbatches depending on customer's requirement
Nature	Biodegradable
Standard	Not applicable
Description	<p>During the Track Record Period, the masterbatches we manufacture are mainly used for the production of our biodegradable and non-biodegradable plastic products. Prior to FY2021, we did not sell masterbatches to our customers, and we started to sell masterbatches in FY2021 to diversify our revenue sources. We sell our masterbatches to manufacturers who lack the necessary production knowhow and/or capabilities to produce biodegradable masterbatches. Through the selling of masterbatches to other biodegradable plastic product manufacturers, we can also keep abreast with the latest market development and manufacturing trend. Masterbatches are relatively easier and cheaper to transport than other products (such as biodegradable produce bag rolls or biodegradable shopping bags). We generally manufacture biodegradable masterbatches base on our customers' requirements. We are not in the business of trading masterbatches and its raw materials. During 9M2022, approximately 96.5% (97.1% in FY2021) of the masterbatches we produced (in terms of volume) were for self-use and only 3.5% (2.9% in FY2021) were for selling to other plastic product manufacturers.</p>

5. Non-biodegradable automobile plastic parts

		Product Name	Fender, Air dams, Glove compartment, Mudguards, Engine guard, Side panel PP, PE ⁽¹⁾ Non-biodegradable Not applicable
Fender (擋水板)	Air dams (擾流板)	Major ingredients	
		Nature Standard	
			
Glove compartment (放物盒)	Mudguards (擋泥板)		
			
Engine guard (下護板)	Side panel (側圍底板)		

Note:

(1) PP and PE are non-biodegradable.

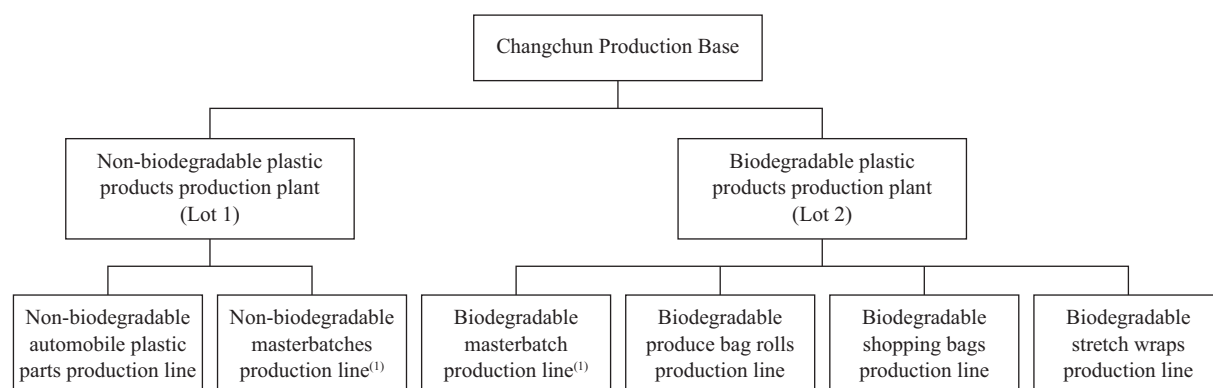
OUR PRODUCTION FACILITIES

Our Production Facilities

As at the Latest Practicable Date, our production base is located in Changchun, Jilin province, the PRC. At our Changchun Production Base, we have two separate plants for biodegradable plastic products and non-biodegradable plastic products, namely, the biodegradable plastic products production plant on Lot 2; and the non-biodegradable automobile plastic parts production plant on Lot 1. Our production lines operate 24 hours per day, split into three eight-hour shifts (including meal and rest breaks, equipment downtime and shift changes with rotating shift schedule).

BUSINESS

The following chart illustrates the production lines in our Changchun Production Base as at the Latest Practicable Date.



Note:

- (1) All of our masterbatch mixers can be used inter-changeably for masterbatch production for both biodegradable plastic product and non-biodegradable plastic product production lines.

Biodegradable plastic products production plant

Our biodegradable plastic products production plant, located in Lot 2 with a total gross floor area of approximately 19,055 sq.m., comprised our biodegradable produce bag rolls production line, biodegradable shopping bags production line, biodegradable stretch wraps production line, and biodegradable masterbatches production line as at the Latest Practicable Date.

Prior to October 2021, all of our production lines (i.e. for all of biodegradable and non-biodegradable production lines) were located in Lot 1 with a total gross floor area of approximately 12,412 sq.m. In October 2021, to streamline our production and separate the production of our biodegradable plastic products and non-biodegradable plastic products, we moved our production lines for biodegradable plastic products to this new plant in Lot 2, while our production lines for non-biodegradable plastic products remained at the existing plant in Lot 1. At the new plant in Lot 2, we manufactured and stored biodegradable plastic products that we produced. For further details about our biodegradable plastic products production plant, please refer to the subsection headed “— Properties” in this section.

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The following table sets forth the utilisation rate of our biodegradable plastic products production lines (excluding the utilisation of masterbatch production) for the years/periods indicated:

	FY2019	FY2020	FY2021	9M2021	9M2022
Effective designed capacity (kg'000) ⁽¹⁾⁽²⁾	5,796	6,440	6,440	4,830	4,830
Actual production volume (kg'000)	2,653	4,520	6,182	5,116	5,463
Effective utilisation rate (%) ⁽³⁾⁽⁴⁾	45.8	70.2	96.0	105.9 ⁽⁵⁾	113.1 ⁽⁵⁾

Notes:

1. The effective designed capacity is determined and calculated by multiplying the daily capacity of our production lines with the applicable number of days of operation per year (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection).
2. We assume the daily operating hours for our production lines to be 24 hours (three eight-hour shifts, including meal time, rest breaks, equipment downtime and shift changes) for FY2019, FY2020, FY2021, 9M2021 and 9M2022. It is assumed that our production lines operated for 280 days in FY2019, FY2020 and FY2021 and 210 days in 9M2021 and 9M2022, respectively (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection).
3. The effective utilisation rate for each of the relevant years/periods is derived by dividing the actual production volume by the effective designed capacity.
4. Due to the implementation of favourable policies by the PRC Government, the demand for biodegradable plastic products has increased significantly in recent years and the effective utilisation rate of our biodegradable plastic products production line has increased from 45.8% in FY2019 to 96.0% in FY2021.
5. Given the increased demand of our products during 9M2021 and 9M2022, the actual production volumes were larger than the effective designed capacity and hence, the effective utilisation rates were 105.9% and 113.1%, respectively. This was achieved by shortening the downtime due to maintenance/inspection as well as the slack/cleaning time. However, we consider this was not a long-term arrangement as problems such as machine overrun, overheat, metal fatigue or machinery failure may arise when the effective utilisation rate of production lines approach or over 100% for prolonged period.

In any event, as advised by our PRC Legal Advisers and to the best knowledge and belief of the Directors, there is no material non-compliance or violations of any labour or environmental protection laws and regulations currently exist or persist that could adversely affect our business operations and financial conditions during the Track Record Period.

Non-biodegradable automobile plastic parts production plant

Our non-biodegradable automobile plastic parts production plant, located in Lot 1 with a total gross floor area of approximately 12,412 sq.m., comprised of our non-biodegradable automobile plastic parts production line and non-biodegradable masterbatches production line as at the Latest

BUSINESS

Practicable Date. During the Track Record Period, we did not sell or derive any sales revenue from non-biodegradable masterbatches. For further details about our automobile plastic parts production plant, please refer to the paragraph headed “— Properties” of this section.

The following table sets forth the utilisation rate of our non-biodegradable automobile plastic parts production lines (excluding the utilisation of masterbatch production) for the years/periods indicated:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>9M2021</u>	<u>9M2022</u>
Effective designed capacity (kg'000) ⁽¹⁾⁽²⁾	8,064	10,080	10,080	7,560	7,560
Actual production volume (kg'000)	135	833	830	602	649
Effective utilisation rate (%) ⁽³⁾⁽⁴⁾	1.7	8.3	8.2	8.0	8.6

Notes:

1. The effective designed capacity is determined and calculated by multiplying the daily capacity of our production lines with the applicable number of days of operation per year (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection).
2. We assume the daily operating hours for our production lines to be 24 hours (three eight-hour shifts, including meal time, rest breaks, equipment downtime and shift changes) for FY2019, FY2020, FY2021, 9M2021 and 9M2022. It is assumed our production lines operated for 280 days in FY2019, FY2020 and FY2021 and 210 days in 9M2021 and 9M2022 respectively (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection).
3. The effective utilisation rate for each of the relevant years/periods is derived by dividing the actual production volume by the effective designed capacity.
4. Currently, it is not commercially viable nor technically practicable to convert our non-biodegradable plastic products production lines into biodegradable plastic products production lines given the different technical specifications and functions, and the production of our biodegradable plastic products and non-biodegradable plastic products require different machines. For instance, one of the notable differences is that the non-biodegradable products are shaped by moulding and injection machine while biodegradable products are shaped by blowing machine.

BUSINESS

Whether the low utilisation rates in the non-biodegradable automobile plastic parts production line will impact the Group's gross profit margins and profit margins

Below we set out the revenue contribution, utilisation rates, the gross profit margin of biodegradable plastic products and non-biodegradable automobile plastic parts, our overall gross profit margins, and net profit margins during the Track Record Period:

	FY2019	FY2020	FY2021	9M2022
Non-biodegradable automobile plastic parts revenue contribution (%).	5.4	10.0	7.0	7.1
Non-biodegradable automobile plastic parts utilisation rates (%).	1.7	8.3	8.2	8.6
Biodegradable plastic products gross profit margin (%).	41.1	41.3	43.7	40.0
Non-biodegradable automobile plastic parts gross profit margin (%).	30.8	48.6	49.3	42.5
Group's gross profit margins (%).	40.5	42.1	44.1	40.2
Group's net profit margins (%).	26.4	29.6	30.5	21.2

As illustrated above, although the non-biodegradable automobile plastic parts business segment contributed lesser revenue, it recorded revenue and gross profit during the Track Record Period. We also consider it is beneficial for the Group to diversify its business activities. As such, we have no current intention to suspend this business segment.

Furthermore, we consider the low utilisation rates in the non-biodegradable automobile plastic parts production lines has not materially impacted our gross profit margins and net profit margins. Rather, as highlighted in the box above, apart from FY2019, the gross profit margin of non-biodegradable automobile plastic parts were higher or remain at a similar level to the gross profit margin of the biodegradable plastic products business segment.

Masterbatch production

Before October 2021, all of our masterbatch mixers were located in our existing plant in Lot 1 and were utilised to produce masterbatches for both biodegradable plastic products and non-biodegradable plastic products. In October 2021, we moved some of our masterbatch mixers to the new plant located in Lot 2 when we separated our biodegradable plastic products and non-biodegradable plastic products production lines. Nevertheless, all of our masterbatch mixers can still be used inter-changeably for masterbatch production for both our biodegradable plastic product and non-biodegradable plastic product production lines.

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As the demand for our products rose due to the implementation of favourable policies by the PRC Government, the utilisation rate of the masterbatch mixers in our production facilities has steadily increased from 23.5% in FY2019 to 61.0% in FY2021 and further to 71.0% in 9M2022, which is in line with the increase in utilisation rate of our biodegradable plastic products production line. The following table sets forth the utilisation rate of all of our masterbatch mixers for the years/periods indicated:

	FY2019	FY2020	FY2021	9M2021	9M2022
Effective designed capacity (kg'000) ⁽¹⁾⁽²⁾	11,844	11,844	11,844	8,883	8,883
Actual production volume (kg'000).	2,788	5,353	7,224	5,766	6,310
Effective utilisation rate (%) ⁽³⁾ . .	23.5	45.2	61.0	65.0	71.0

Notes:

1. The effective designed capacity is determined and calculated by multiplying the daily capacity of our production lines with the applicable number of days of operation per year (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection).
2. We assume the daily operating hours for our production lines to be 24 hours (three eight-hour shifts, including meal time, rest breaks, equipment downtime and shift changes) for FY2019, FY2020, FY2021, 9M2021 and 9M2022. It is assumed, our production lines operated for 280 days in FY2019, FY2020 and FY2021 and 210 days in 9M2021 and 9M2022, respectively (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection).
3. The effective utilisation rate for each of the relevant years/periods is derived by dividing the actual production volume by the effective designed capacity.

Our production plants were not subject to operation suspension or business closing-down due to confirmed COVID-19 cases. Accordingly, all of our production lines remained in operation during the Track Record Period and up until the Latest Practicable Date.

Our Production Equipment and Machinery

We purchased our production equipment and machinery from Independent Third Parties in the PRC. We maintained records of scheduled downtime for maintenance and repairs, and regular inspection of our production equipment and machinery in order to ensure our production lines run smoothly and operate at optimal levels. Regular maintenance of our production facilities are generally performed on a monthly basis and are scheduled to rotate among different equipment to avoid complete shutdown of our operation.

During the Track Record Period, we did not experience any material or prolonged interruption to our production processes due to equipment or machinery failure.

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The table below sets forth information on our major equipment and machineries as at 30 September 2022:

<u>Type of major equipment and machineries</u>	<u>Number of equipment and machineries</u>	<u>Estimated average useful lives</u>	<u>Average remaining useful lives</u>
		<i>(years)</i>	<i>(years)</i>
Single screw extruder granulator	1	10	2.9
Twin screw extruder granulator	8	10	4.7
Injection moulding machine ⁽¹⁾	19	10	4.7
Bag making machine	14	10	5.1
Blowing machine	9	10	4.4
Masterbatch mixer	6	10	3.9
Homogeniser ⁽²⁾	2	10	6.5

Notes:

- (1) In view of the increasing interest from prospective customers, we have purchased an addition injection moulding machine as at the Latest Practicable Date, for product sampling purpose and the preparation of our biodegradable tableware production.
- (2) A homogeniser is a type of mixing equipment used to create a uniform and consistent mixture of masterbatches.

Expansion Plan

Changchun Production Base

As part of our business strategies, details regarding the new biodegradable plastic products production lines in our Changchun Production Base are set out below:

Location:	Lot 2
Timing to commence construction:	Around 1st quarter of 2023.
Expected timing of commencement of trial production:	By 1st quarter of 2023.

BUSINESS

Expected maximum annual production capacity:	<p>Biodegradable masterbatches: increase from approximately 11,844 thousand kilogrammes to approximately 45,892 thousand kilogrammes.</p> <p>Biodegradable plastic products (excluding biodegradable masterbatches): increase from approximately 6,440 thousand kilogrammes to approximately 28,840 thousand kilogrammes.</p>
Expected capital expenditure:	Approximately RMB83.3 million.
Source of funding:	<ul style="list-style-type: none">• Total cost for expanding the biodegradable plastic products production line at Changchun Production Base: RMB83.3 million• Amount which is expected to be settled by our Group's by internal resources in 2022 and the first half of 2023: RMB1.1 million• Approximate amount to be funded from the net proceeds of the Global Offering: RMB54.5 million• Remaining amount which is expected to be settled by our Group's by internal resources: RMB27.7 million
Estimated investment payback period⁽¹⁾:	The investment payback period of the new production lines at our Changchun Production Base is expected to be approximately 2.0 years.
Estimated breakeven period⁽²⁾:	The breakeven period of the new production lines at our Changchun Production Base is expected to be approximately 2 months.

Notes:

- (1) The investment payback period refers to the estimated number of years needed for the new production lines at our Changchun Production Base to result in net cash inflows compared to the initial cash investments.
- (2) The breakeven period refers to the estimated number of months needed for the new production lines at our Changchun Production Base to result in no net loss.

BUSINESS

Proposed management of the new production lines and source of labour:

Our production lines at Changchun Production Base will be managed by a professional team to be led by Mr. Li Peng, an executive Director and the vice president of our production department, who is responsible for supervising the production operation of our Group. In addition, our Group will also recruit 65 staff members for the operation of our Changchun Production Base. For details of experience and qualifications of Mr. Li Peng, please refer to the section headed “Directors and Senior Management” in this prospectus.

Major equipment and machineries of the new production lines:

<u>Equipment and machineries</u>	<u>Purpose</u>	<u>Number of equipment and machineries</u>	<u>Estimated average costs per item</u>	<u>Estimated average useful lives</u>	<u>Expected additional depreciation per year</u>
			<i>(RMB'000)</i>	<i>(years)</i>	<i>(RMB'000)</i>
Twin screw extruder granulator	For production of masterbatches	16	800	10	80
Blowing and printing machines	For biodegradable shopping bag production	13	370	10	37
Bag making machines	For biodegradable shopping bag production	10	450	10	45
Back-to-back rolling machines	For produce bag roll production	10	300	10	30
Sheet machines	For biodegradable tableware production	4	2,000	10	200
Suction moulding machines	For biodegradable tableware production	4	1,500	10	150
Injection moulding machines	For biodegradable tableware production	5	1,200	10	120
Straw making machine	For biodegradable straw production	10	350	10	35

BUSINESS

Equipment and machineries	Purpose	Number of equipment and machineries	Estimated average costs per item <i>(RMB'000)</i>	Estimated average useful lives <i>(years)</i>	Expected additional depreciation per year <i>(RMB'000)</i>
Mulch film making machine	For biodegradable agricultural mulch film production	5	300	10	30
Laminating machine	For biodegradable express packaging bag production	4	1,200	10	120
Multi-coloured gravure printing machines	For biodegradable express packaging bag production	3	1,600	10	160

Huizhou Production Base

Details regarding the new plant and biodegradable plastic products production lines in our Huizhou Production Base are set out below:

Location:	Santiao bridge, Baiziling, Xiaojin Village, Luoyang, Boluo, Huizhou, Guangdong Province (廣東省惠州市博羅縣羅陽鎮小金村柏子嶺三條橋地段).
Expected timing to commence construction:	By 3rd quarter of 2023.
Expected timing of commencement of trial production:	By 4th quarter of 2023.
Expected maximum annual production capacity:	increase from nil to approximately 17,528 thousand kilogrammes.
Estimated capital expenditure:	approximately RMB54.4 million.

BUSINESS

Source of funding:	<ul style="list-style-type: none">• Total capital expenditure for the establishment of the new plant and production lines at Huizhou Production Base: RMB75.8 million• Approximate amount to be funded from the net proceeds of the Global Offering: RMB54.4 million• Remaining amount which is expected to be settled by our Group's by internal resources: RMB2.4 million• As at the Latest Practicable Date, approximately RMB340,000 had been settled as a deposit for the new biodegradable plastic products production lines
Estimated investment payback period⁽¹⁾:	The investment payback period of the new plant and production lines at our Huizhou Production Base is expected to be approximately 3.6 years.
Estimated breakeven period⁽²⁾:	The breakeven period of the new plant and production lines at our Huizhou Production Base is expected to be approximately 19 months.
Proposed management of the new plant and production lines and source of labour:	Our Group's new plant and production lines will be managed by a professional team to be led by Mr. Li Peng, an executive Director and the vice president of our production department, who is responsible for supervising the production operation of our Group. In addition, our Group will also recruit 55 staff members for the operation of our Huizhou Production Base. For details of experience and qualifications of Mr. Li Peng, please refer to the section headed "Directors and Senior Management" in this prospectus.

Notes:

- (1) The investment payback period refers to the estimated number of years needed for the new production lines at our Huizhou Production Base to result in net cash inflows compared to the initial cash investments.
- (2) The breakeven period refers to the estimated number of months needed for the new production lines at our Huizhou Production Base to result in no net loss.

BUSINESS

Major equipment and machineries of the new plant and production lines:

<u>Equipment and machineries</u>	<u>Purpose</u>	<u>Number of equipment and machineries</u>	<u>Estimated average costs</u>	<u>Estimated average useful lives</u>	<u>Expected additional depreciation per year</u>
			<i>(RMB'000)</i>	<i>(years)</i>	<i>(RMB'000)</i>
Blowing and printing machines	For biodegradable shopping bag production	14	370	10	37
Bag making machines . . .	For biodegradable shopping bag production	10	450	10	45
Back-to-back rolling machines	For produce bag roll production	10	300	10	30
Sheet machines	For biodegradable tableware production	2	2,000	10	200
Suction moulding machines	For biodegradable tableware production	3	1,500	10	150
Injection moulding machines	For biodegradable tableware production	5	1,200	10	120
Straw making machine . . .	For biodegradable straw production	5	350	10	35
Mulch film making machine	For biodegradable agricultural mulch film production	2	300	10	30

BUSINESS

Below we set out the breakdown for production capacity by type of products:

Changchun Production Base	Production capacity before expansion	Additional production capacity	Production capacity after expansion
	<i>(kg'000)</i>	<i>(kg'000)</i>	<i>(kg'000)</i>
Produce bag rolls/shopping bags	6,440	8,736	15,176
Tableware and straws	—	9,408	9,408
Agricultural mulch film.	—	2,240	2,240
Express packaging bags.	—	2,016	2,016
Sub-total	6,440	22,400	28,840

Huizhou Production Base	Production capacity before expansion	Additional production capacity	Production capacity after expansion
	<i>(kg'000)</i>	<i>(kg'000)</i>	<i>(kg'000)</i>
Produce bag rolls/shopping bags	—	9,408	9,408
Tableware and straws	—	7,224	7,224
Agricultural mulch film.	—	896	896
Sub-total	—	17,528	17,528

Below set out a summary of the expansion plan of our production capacity and the key timing of our expansion plan.

	Annual maximum production capacity before expansion	Annual maximum production capacity after expansion	Expected trial production time	Expected completion time
	<i>(kg'000)</i>	<i>(kg'000)</i>		
<i>Changchun Production Base</i>				
Biodegradable Masterbatches.	11,844	45,892	2nd quarter of 2023	2nd quarter of 2024
Biodegradable Plastic Products (excluding biodegradable masterbatches).	6,440	28,840	1st quarter of 2023	2nd quarter of 2024
<i>Huizhou Production Base</i>				
Biodegradable Plastic Products (excluding biodegradable masterbatches).	—	17,528	4th quarter of 2023	1st quarter of 2024

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The estimated breakeven period, investment payback period and utilisation rate

Below set out the estimated breakeven period, investment payback period and estimated utilisation rate in 2023 for the new production lines in Changchun Production Base and Huizhou Production Base:

	<u>Estimated breakeven period</u>	<u>Estimated investment payback period</u>	<u>Estimated utilisation rate in 2023</u>
New production lines in Changchun Production Base ⁽¹⁾ . .	2 months	2.0 years	23.5%
New production lines in Huizhou Production Base	19 months	3.6 years	3.8% ⁽²⁾

Notes:

- (1) The historical breakeven period of the biodegradable production lines in Changchun Production Base was approximately 1.3 months and the investment payback period of these production lines was approximately 1.9 years. While calculating the breakeven and investment payback period in Changchun Production Base, we adopted the assets value as at 1 January 2019 as basis date for calculation.
- (2) The estimated utilisation of Huizhou Production Base in FY2023 will be low as we assumed trial production will commence 1st quarter of 2024 after we apply proceeds for the development. Also, we need time to produce sample with our customers before mass production.

Assumptions of the estimated breakeven period analysis

For reference and illustration purpose only, set out below are certain assumptions used in calculating the breakeven period in respect of the new production lines in Changchun Production Base and Huizhou Production Base.

- The new production lines in Changchun Production Base will commence trial production in the 1st quarter of 2023, while the new production lines in Huizhou Production Base will commence trial production in the 4th quarter of 2023.
- The total capital expenditure required for the development of the new production lines in Changchun Production Base and Huizhou Production Base is based on the expected use of proceeds to be spent on the construction after the proposed Listing. For further details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.
- The future interest rate which is reference to the data released by the PBOC.
- There will be no material change to the existing accounting policies.
- The lease of Changchun Production Base and Huizhou Production Base will be successfully renewed upon expiration with commercially viable terms.

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- In respect of the new production line in Changchun Production Base, the average selling prices and average unit costs of our products are project based on FY2021. Only revenue, costs and expenses to be generated from the investment of new production based are considered.
- In respect of the new production line in Huizhou Production Base, the average selling prices and average unit costs of our products are assumed to be the same as that of Changchun Production Based in FY2021.

Directors' views on payback period analysis

After considering (i) historic performance of our Company during the Track Record Period; (ii) alternative or substitute products and direct competitors; (iii) applications (residential, commercial, and industrial); (iv) anticipated future market potential and target customers; (v) pricing, market share and sales volume projections; (vi) projected revenue and cost of sales and the relevant competitive landscape as disclosed under “Industry Overview” section; and (vii) governmental policies and regulations as disclosed under “Regulatory Overview” section, our Directors consider the payback period analysis is reasonable.

Relevant licences, permits, filing, registration or approvals

We will file the applications for the construction of the aforesaid (i) new production lines for our biodegradable plastic products at our Changchun Production Base; and (ii) new plant and production lines for our biodegradable plastic products at our Huizhou Production Base. As confirmed by our PRC Legal Advisers and Directors, provided that we submit all necessary documents required by the authorities, there is no legal impediment for us to complete such filing procedures.

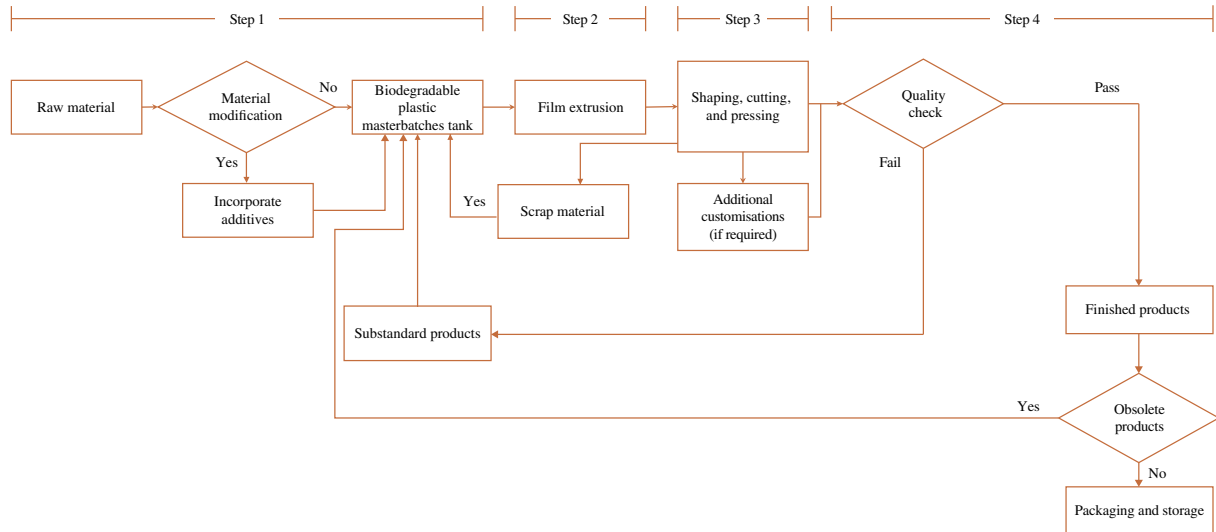
Save for the above, no other licences, permits, filing, registration or approvals are required from our Group regarding such application filings. According to the relevant PRC laws and regulations, before we can commence the operation of the aforesaid new plant and production lines for our biodegradable plastic products, we should pass the completion inspection for the relevant plant and production lines.


PRODUCTION PROCESS

During the Track Record Period, we carried out all the production processes of our products in our production facilities, which operate 24 hours per day, split into three eight-hour shifts (including meal and rest breaks, equipment downtime and shift changes with rotating shift schedule).

Manufacturing of biodegradable plastic products

The following flowchart illustrates the typical major production process of biodegradable plastic products.



	<u>Production process</u>	<u>Details</u>	<u>Photos of major equipment and machineries used in the relevant process (For illustrative purposes only)</u>
Step 1	Raw material, incorporate additives and material modification based on the product specifications ⁽¹⁾ . .	Different kinds of raw material (including PLA, PBAT and PBS), each with specific properties, are weighed according to the required ratio and being mixed in a screw extruder granulator. Once the process is completed, the output, being biodegradable masterbatches will be stored in the tank.	

Note:

- (1) The properties of the end product will vary according to different composition and different manufacturing process of these ingredients. For example, the structural properties of PBAT can be strengthened or reinforced by the incorporation of starch-mixture or Calcium Carbonate. Likewise, our biodegradable produce bag rolls and biodegradable shopping bags have similar ingredient composition, but the properties of them are different due to the varied composition of these ingredients and different manufacturing processes. A typical biodegradable produce bag roll or biodegradable shopping bag is approximately 80% composed of PLA, PBAT and PBS mixture and/or other additives.

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	<u>Production process</u>	<u>Details</u>	<u>Photos of major equipment and machineries used in the relevant process (For illustrative purposes only)</u>
Step 2	Film extrusion	<p>Biodegradable masterbatches will be pressurised and heated until they become liquefied and pliable.</p> <p>Once the biodegradable masterbatches reach the desired level of pliability, they are extruded through a circular die to form a continuous tube of plastic. In the film blowing machine, air is blown through the tube of plastic from the centre of the die, creating a long pliable plastic film in accordance with the size and thickness of the required product. When the plastic film cools down, it is flattened out by rollers and is cut on each side of the film to obtain the required width.</p> <p>The rolls of plastic film are then ready for printing.</p>	 
Step 3	Shaping, cutting, and pressing ⁽¹⁾ . . .	<p>The plastic can then be shaped and cut into the required size and shape based on the use or application.</p> <p>The next step starts with pressing the two printed sheets together to create the sides of the bag in the plastic bag making machine. Additional customisations can be added at this stage, such as hole-punching or customised logo.</p>	 

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	<u>Production process</u>	<u>Details</u>
Step 4	Quality check, packaging and storage ⁽¹⁾	Testing and quality checks will be performed on samples of the end products before they are delivered for packaging and storage.

Photos of major equipment and machineries used in the relevant process (For illustrative purposes only)



Note:

- (1) Any production waste, scrap materials (such as edge trimmings and ends), substandard or obsolete products are returned to the biodegradable plastic masterbatches tank for re-use purpose (where applicable).

Lead time

During the Track Record Period, the production lead time for our biodegradable plastic products was generally less than two weeks (depending on the quantity required, our production capacity and production complexity of the relevant products).

Production Yield

Production yield is a ratio of the production quantity of products available for sale over the amount of raw materials used. Our Directors believe that it is not possible for biodegradable plastic products manufacturers to achieve a yield of 100% because our major raw materials, such as PLA, PBAT and PBS, are mixed to form an emulsion for reaction in the manufacturing process and some of the materials contained therein will be evaporated during the manufacturing process, and there are scrap materials that cannot be re-used. During the Track Record Period, the production yield for our biodegradable plastic products was approximately 92.9%, 94.6%, 93.7%

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and 93.4% for FY2019, FY2020, FY2021 and 9M2022, respectively. According to Frost & Sullivan, our production yield is similar to that of other established biodegradable plastic products manufacturers in the PRC.

Manufacturing of non-biodegradable automobile plastic parts

We manufacture the plastic masterbatches based on the designated specification by mixing different kinds of plastic polymers according to the required ratio. The plastic masterbatches would be melted down under controlled conditions until they become liquefied and pliable. The melted plastic would then be moulded and shaped into different plastic parts by the plastic injection moulding machine. The plastic parts would be welded into the designated form and structure, and passed to final finishing and fixing works thereafter.

OUR SALES AND CUSTOMERS

We market our products to our customers directly through our sales team. By leveraging the extensive business connections of our executive Directors, Ms. Zhang Yuqiu and Mr. Shan Yuzhu, our sales team was able to establish a sizable client base in Northeast China with a small team. Our sales strategy focuses on building stable and long-term relationships with customers and providing comprehensive service to satisfy our customers' needs. We maintain frequent contact with our customers and visit them to obtain feedback on our products, gauge customer satisfaction and improve our business relationships with them. We believe that our current sales and marketing strategies are effective and we intend to expand and enhance our sales and marketing functions by adopting similar measures in the future.

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Our sales and marketing department is responsible for our sales activities. As at 30 September 2022, our sales and marketing department, which was headed by Mr. Shan, had six staff members responsible for sales and marketing functions. Our sales and marketing department is responsible for formulating our overall sales strategies, collecting and analysing market data, negotiating and finalising sales terms with our customers and providing after-sales services to our customers. Our sales personnel is responsible for advising our customers on their purchase, managing the purchase orders from our customers, keeping track of the payment schedule and reminding our customers to settle the payment, as well as visiting and contacting our customers from time to time to understand their enquiries and demand.

During the Track Record Period, all our customers were located in the PRC. Our top three customers (all of which are our biodegradable shopping bag customers) during the Track Record Period are subsidiaries of listed companies in the PRC or in Hong Kong. Our biodegradable plastic products mainly comprise (i) biodegradable produce bag rolls; (ii) biodegradable shopping bags; and (iii) biodegradable stretch wraps. The customers of our biodegradable produce bag rolls and biodegradable shopping bags are mainly supermarket chains, department stores and outlets. To a lesser extent, we also sell our biodegradable shopping bags to hospitals, clinics and pharmacies for medical packaging use. Moreover, we sell biodegradable stretch wraps to automobile components companies, and food and beverages companies for stretch wrapping the pallets after cargos are loaded onto the pallets. Our customers of non-biodegradable automobile plastic parts are mostly trading companies of non-biodegradable automobile plastic parts. We started to sell masterbatches in FY2021 to diversify our revenue sources. We sell our biodegradable masterbatches to manufacturers who lack the necessary production knowhow and/or capabilities to produce biodegradable masterbatches. Through the selling of masterbatches to other biodegradable plastic product manufacturers, we can also keep abreast with the latest market development and manufacturing trend. Masterbatches are relatively easier and cheaper to transport than other products (such as biodegradable produce bag rolls or biodegradable shopping bags). We generally manufacture biodegradable masterbatches base on our customers' requirements. We are not involved in the trading business of masterbatches and its raw materials.

Our biodegradable plastic products are sold directly to our customers. We did not appoint any distributors or agents to conduct sales of any of our products during the Track Record Period.

We plan to place more resources and efforts in marketing and promoting our products. We intend to expand our sales and marketing department by hiring 4 additional staff by 2023 we expect our business will continue to grow in Northeast and Southeast China after Listing. In addition, we will continue to participate in plastic production related industry associations such as the Degradable Plastics Committee of China Plastic Processing Industry Association and the Changchun Die & Mold Industry Association, so as to keep ourselves abreast of the market trends and to seek other potential business opportunities.

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Sales network

During the Track Record Period, all our products are sold to our customers in the PRC, mainly in Northeast China. The following table sets forth the breakdown of our revenue by geographical locations, based on the registered addresses of the relevant contractual party, during the Track Record Period:

	FY2019		FY2020		FY2021		9M2021		9M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Northeast China	80,118	78.0	132,144	79.3	200,995	78.3	150,720	79.2	165,650	77.4
— Jilin province	77,589	75.5	126,441	75.8	194,326	75.7	146,065	76.8	158,990	74.3
— Heilongjiang province	2,435	2.4	5,526	3.3	6,188	2.4	4,655	2.4	6,034	2.8
— Liaoning province	94	0.1	177	0.1	481	0.2	—	—	626	0.3
Others ⁽¹⁾	22,582	22.0	34,578	20.7	55,745	21.7	39,542	20.8	48,461	22.6
Total	102,700	100.0	166,722	100.0	256,740	100.0	190,262	100.0	214,111	100.0

Note:

- (1) Others mainly include Beijing, Shandong province, Zhejiang province, Shanghai and Guangdong province, the PRC.

Sales Negotiation and Sales Agreement

Sales Negotiation

After our customers are satisfied with the sample products, we will proceed to the negotiations of sales agreements with our customers. Our customers generally enter into one-year framework sales agreements with us and place orders with us for each time of purchase. Our sales team communicates with our customers on the terms of each purchase order, including the price and quantity of products.

Our Directors confirm that there was no material breach of the terms of our framework sales agreements with our customers during the Track Record Period and up to the Latest Practicable Date.

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Salient terms of our sales agreement

The table below sets forth the salient terms of our framework sales agreement:

Pricing, quantity and specification of products	:	To be determined and subject to the purchase order each time.
Annual purchase amount	:	Generally, customers are required to have minimum annual purchase amount from us to be determined each year.
Minimum purchase amount per each purchase order	:	In general 10,000 pieces for each product in one single purchase order.
Delivery	:	Generally, we deliver the products to the customers within 15 days (for first purchase order) or seven days (for recurring purchase orders) upon receipt of the purchase order. We are responsible for the delivery of our products to the location designated by our customers. We bear the transportation costs for delivering the products to the customers.
Inspection and products return policies	:	Our customers are obliged to inspect the products upon delivery to their sites and inform us of any discrepancy in the product specification and quantity. If there is any discrepancy, we shall arrange for replacement at our own expenses, or return with refund. For further details, please refer to the subsection headed “— Our Sales And Customers — Products Return” in this section.
Payment terms	:	The credit period is usually 90 days after delivery of products. The customers shall settle the payment either by bank transfer or other methods as agreed by us.

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Conditions for terminating the agreement : The agreement may be terminated by written notice of both parties, or by the occurrence of certain events, such as customer's failure to fulfil the annual purchase amount as stipulated in the sales agreement (if any), our failure to deliver the required number of products to the customers, and failure to deliver the products within the timeframe as stipulated in the sales agreement.

During the Track Record Period, we did not terminate our framework sales agreement with any of our customers due to customer's failure to fulfil the minimum annual purchase amount.

Upon entering into the framework sales agreements and receipt of the purchase orders, our sales team passes the intended sales volume and the delivery date of the purchase orders to the procurement department for them to make plans on raw materials procurement and to the production department to formulate production schedules.

Pricing Strategy and Policy

Our pricing policy aims to facilitate our sustainable growth strategy. We generally sell our biodegradable plastic products to supermarket chains, department stores, outlets, automobile components companies and food and beverages companies, and our non-biodegradable plastic products to automobile manufacturing companies.

In general, selling prices of our products are affected by various factors including the cost of raw materials, the product specifications and complexity to manufacture the products, quantity, relationship with the customer, historical sales data, labour costs, and prevailing market trend. So long as we have the capacity and order is profitable with an overall desirable margin, we will accept the order from our customers.

Although the composition and costs of producing biodegradable shopping bags and biodegradable produce bag rolls are similar as their composition are close, our biodegradable shopping bags are, in general, sold at a relatively higher price than our biodegradable produce bag rolls due to the following reasons:

- (i) the product specification for biodegradable shopping bags is relatively more complicated than that of biodegradable produce bag rolls. For instance, shopping bags need to be designed and cut costs for easier handling; and

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- (ii) produce bag rolls are usually provided to end-users for free while shopping bags will be charged, our customers (such as supermarket chains, department stores and outlets) are therefore more sensitive to price changes in produce bag rolls than shopping bags.

Furthermore, to stay competitive, we adjust our prices from time to time to cope with the changing business environment.

Seasonality

During the Track Record Period, our business has no obvious cyclical or seasonal fluctuation.

Credit Period and Payments

We normally grant our customers a credit period of not more than 90 days based on factors including their length of business relationship with us and historical payment records. Our customers mainly settled our payment in RMB by way of bank transfer.

During the Track Record Period, we did not experience any major defaults in payments or bad debts from our customers which may materially affect our financial condition and operating results.

Delivery and Logistics

During the Track Record Period, we were generally responsible for the delivery of our products to the location designated by our customers. In general, subject to the quantity and availability of our logistic team we will arrange our own transportation fleet for the delivery of our products to locations within Jilin province. As for the locations outside of Jilin province, we would engage third party logistics service providers to deliver our products from our production facilities to the location specified by our customers in the PRC. The selection criteria of our third party logistics service providers include, amongst others, scale of operation, traffic volume, available delivery routes, insurance policies, past performance and any past dealings with them, as well as the fee they charge.

In FY2019, FY2020, FY2021, 9M2021 and 9M2022, logistic service fee amounted to approximately RMB0.4 million, RMB0.5 million, RMB0.7 million, RMB0.5 million and RMB1.8 million, respectively. The logistics service provider is liable for any delay of delivery, damage or loss of products which arises during transportation. During the Track Record Period, we did not experience nor seek any damages for any delay of delivery from our logistics service providers.

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During the Track Record Period, we entered into service agreements with our third-party logistics service providers for delivering our products to locations outside of Jilin province or for urgent orders which our own logistic team cannot handle. The general salient terms of the service agreements are set out below:

Term of service	:	Fixed term of one year.
Major terms	:	The relevant service provider will provide transportation services of our products at such time and to such location as requested by us, in consideration for the payment of transportation service fee to the relevant service provider.
Service fee	:	By weight (per thousand kilogramme) and by distance, depending on location.
Payment terms	:	Monthly.

Except for damage or loss caused by natural disasters or by the fault of our Group or the recipients (i.e., our customers), the risks of any damage or loss during delivery of our products are generally borne by our third-party logistics service providers. Any costs arising from delays in delivery or damages to our products are also borne by our third-party logistics service providers unless they were not at fault in causing the delay or damages.

Our Directors confirm that we did not experience any material disruption or damage to our products in the delivery of our products during the Track Record Period.

Products Return

We may allow product returns when the quality of our products falls below the required standard due to reasons attributable to us. In general, our customers will notify us to request for replacement at our expenses or refund when our products fail to meet the required standard. Depending on the circumstances, our quality control department may conduct in-house tests to verify whether such products fall below the required standard as alleged by our customers and/or request customers to send us photos or details of the defective products. Application for return of products shall be verified by the managers of the sales and marketing department and quality control department. If it is determined that the complaint is valid, defective products are generally returned to us for refund or replaced by non-defective products at our own costs to our customers.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any material product return requests, complaints or claims that would impose any material adverse effect on our business operation or financial positions.

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After-sale Service

Upon request by our customers, our sales team may provide after-sale services, such as checking the products delivered if there is any potential quality issue. In such cases, our sales team will call and visit our customers to collect their feedback on our products (which also include the feedback from end-users of those biodegradable produce bag rolls and biodegradable shopping bags), and report to our management team. Our management team will meet regularly with the department heads to discuss various topics such as how to enhance our products, production and/or services, so as to address our customers' feedback.

Our Major Customers

During the Track Record Period, our major customers are mainly supermarket chains, department stores, and outlets, of which our top three major customers are all subsidiaries of listed companies in the PRC or in Hong Kong (all of which are our biodegradable plastic products customers). In FY2019, FY2020, FY2021 and 9M2022, sales to our five largest customers in each year/period during the Track Record Period represented approximately 45.8%, 56.3%, 52.7% and 48.6% of our total revenue, respectively. Sales to our largest customer in each year/period during the Track Record Period represented approximately 15.5%, 16.1%, 16.1% and 15.1% of our total revenue, respectively, over the same period.

The tables below set forth a summary of our five largest customers in FY2019, FY2020, FY2021 and 9M2022, respectively.

FY2019

Rank	Customer	Background	Products sold	Sales amount (approx.) <i>(RMB'000)</i>	% of total revenue	Business relationship since	Credit terms	Settlement method
1	Customer Group A ⁽¹⁾	A group of companies which are subsidiaries of an A-share company listed in Shanghai with a registered capital of approximately RMB 159 million, and their principal business are mainly operation of department stores, commercial complexes, and supermarket chains.	Biodegradable produce bag rolls, biodegradable shopping bags	15,929	15.5	2016	within 90 days	bank transfer

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Rank	Customer	Background	Products sold	Sales amount (approx.) <i>(RMB'000)</i>	% of total revenue	Business relationship since	Credit terms	Settlement method
2 . . .	Customer Group B ⁽²⁾	A group of companies which are indirect subsidiaries (or branches of the indirect subsidiaries) of a Hong Kong listed company with a market capitalisation of approximately HK\$22.6 billion, and their principal business are mainly operation of hypermarkets and e-commerce platforms in China.	Biodegradable produce bag rolls, biodegradable shopping bags	12,381	12.1	2016	within 90 days	bank transfer
3 . . .	Customer Group C ⁽³⁾	A group of companies which are subsidiaries or branches (or branches of subsidiaries) of an A-share company listed in Shanghai with a registered capital of RMB665.8 million, and their principal business are mainly operation of supermarket chains.	Biodegradable produce bag rolls, biodegradable shopping bags	10,487	10.2	2016	within 90 days	bank transfer
4 . . .	Customer Group D ⁽⁴⁾	Located in Jilin Province with a registered capital of RMB100 million, and their principal business are mainly operation of cattle processing business.	Biodegradable produce bag rolls, biodegradable shopping bags	4,333	4.2	2016	within 90 days	bank transfer
5 . . .	Changchun Hengxing	Established in 2004, located in Jilin Province with a registered capital of RMB 6 million, and their principal business are mainly production and selling of automobile plastic products.	Non-biodegradable automobile plastic parts, biodegradable shopping bags, biodegradable plastic stretch wraps	3,943	3.8	2014	within 90 days	bank transfer/ bank acceptance bill
Total				47,073	45.8			

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FY2020

Rank	Customer	Background	Products sold	Sales amount (approx.) <i>(RMB'000)</i>	% of total revenue	Business relationship since	Credit terms	Settlement method
1 . . .	Customer Group B ⁽²⁾	As disclosed in the table above.	Biodegradable produce bag rolls, biodegradable shopping bags	26,795	16.1	2016	within 90 days	bank transfer
2 . . .	Customer Group A ⁽¹⁾	As disclosed in the table above.	Biodegradable produce bag rolls, biodegradable shopping bags	24,415	14.6	2016	within 90 days	bank transfer
3 . . .	Customer Group C ⁽³⁾	As disclosed in the table above.	Biodegradable produce bag rolls, biodegradable shopping bags	18,996	11.4	2016	within 90 days	bank transfer
4 . . .	Changchun Hengxing	As disclosed in the table above.	Non-biodegradable automobile plastic parts, biodegradable shopping bags, biodegradable plastic stretch wraps	16,186	9.7	2014	within 90 days	bank transfer / bank acceptance bill
5 . . .	Customer Group D ⁽⁴⁾	As disclosed in the table above.	Biodegradable produce bag rolls, biodegradable shopping bags	7,536	4.5	2016	within 90 days	bank transfer
Total				93,928	56.3			

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FY2021

Rank	Customer	Background	Products sold	Sales amount (approx.) <i>(RMB'000)</i>	% of total revenue	Business relationship since	Credit terms	Settlement method
1 . . .	Customer Group A ⁽¹⁾	As disclosed in the FY2019 table above.	Biodegradable produce bag rolls, biodegradable shopping bags	41,240	16.1	2016	within 90 days	bank transfer
2 . . .	Customer Group B ⁽²⁾	As disclosed in the FY2019 table above.	Biodegradable produce bag rolls, biodegradable shopping bags	37,807	14.7	2016	within 90 days	bank transfer
3 . . .	Customer Group C ⁽³⁾	As disclosed in the FY2019 table above.	Biodegradable produce bag rolls, biodegradable shopping bags	29,033	11.3	2016	within 90 days	bank transfer
4 . . .	Customer Group E ⁽⁵⁾	A group of companies located in Jilin Province, and their principal business are mainly operation of supermarket chains.	Biodegradable produce bag rolls, biodegradable shopping bags	15,030	5.9	2018	within 90 days	bank transfer
5 . . .	Changchun Hengxing	As disclosed in the FY2019 table above.	Non-biodegradable automobile plastic parts, biodegradable shopping bags, biodegradable plastic stretch wraps	12,067	4.7	2014	within 90 days	bank transfer / bank acceptance bill
Total				<u><u>135,177</u></u>	<u><u>52.7</u></u>			

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9M2022

Rank	Customer	Background	Products sold	Sales amount (approx.) <i>(RMB'000)</i>	% of total revenue	Business relationship since	Credit terms	Settlement method
1. . . .	Customer Group A ⁽¹⁾	As disclosed in the FY2019 table above.	Biodegradable produce bag rolls, biodegradable shopping bags	32,378	15.1	2016	within 90 days	Bank transfer
2. . . .	Customer Group B ⁽²⁾	As disclosed in the FY2019 table above.	Biodegradable produce bag rolls, biodegradable shopping bags	26,982	12.6	2016	within 90 days	Bank transfer
3. . . .	Customer Group C ⁽³⁾	As disclosed in the FY2019 table above.	Biodegradable produce bag rolls, biodegradable shopping bags	21,761	10.2	2016	within 90 days	Bank transfer
4. . . .	Customer Group E ⁽⁵⁾	As disclosed in the FY2021 table above.	Biodegradable produce bag rolls, biodegradable shopping bags	12,897	6.0	2018	within 90 days	Bank transfer
5. . . .	Changchun Hengxing	As disclosed in the FY2019 table above.	Non-biodegradable automobile plastic parts, biodegradable shopping bags, biodegradable plastic stretch wraps	10,090	4.7	2014	within 90 days	Bank transfer / bank acceptance bill
Total				104,108	48.6			

Notes:

- (1) Customer Group A comprises 13 companies and two branch companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with Customer Group A is presented on common controlling party group basis.
- (2) Customer Group B comprises five companies and three branch companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with Customer Group B is presented on common controlling party group basis.

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- (3) Customer Group C comprises one company and four branch companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with Customer Group C is presented on common controlling party group basis.
- (4) Customer Group D comprises a company established in the PRC and one of its branches.
- (5) Customer Group E comprises five companies and two branch companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with Customer Group E is presented on common controlling party group basis.

Our five largest customers during the Track Record Period are Independent Third Parties. To the best knowledge and belief of our Directors, (i) none of our Directors or any of their respective close associates or, any of our Shareholders who owns more than 5% of the Shares in issue, had any interest in any of our five largest customers for the Track Record Period; and (ii) save for the sale and purchase of our products, none of our five largest customers, their respective shareholders or any of their senior management had any past or present relationships (including but not limited to business, employment, family, trust, financing, fund flow or otherwise) with our Company, its subsidiaries, their respective shareholders, directors, senior management or any of their respective associates during the Track Record Period.

Our ability in securing new customers during the Track Record Period

Biodegradable plastic products

The following table sets out the movement of the number of our biodegradable plastic products customers during the Track Record Period:

	2019	2020	2021	From 1 January 2022 up to 30 September 2022
As at the beginning of the year/period.	93	100	90	89
Addition of new customers during the relevant year/period ⁽¹⁾	23	13	21	15
Non-renewal of existing customers . . .	(16)	(23)	(22)	4
Net increase/(decrease) in customers .	7	(10)	(1)	19
As at the end of the year/period	<u>100</u>	<u>90</u>	<u>89</u>	<u>108</u>
Ratio of new customers to the total number of customers	23%	14%	24%	14%

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As illustrated above, the number of additional new customers varied during the Track Record Period, however, we consider the total number of additions of new customers is not a key indicator of our business performance due to:

- (i) prospective customers might resort to other plastic alternatives due to their internal policy (for example: a French-based multinational sports retailer, one of the Company's customers during the Track Record Period, adopted the policy of not using any plastic shopping bag (irrespective of whether biodegradable or not) in their sales since FY2021);
- (ii) prospective customers might experience a change in operation or financial circumstance (as the retail market is highly competitive in the PRC); or
- (iii) prospective customers might purchase our competitors' products or alternate products.

In any event, we have been able to acquire new customers each year and the total number of customers did not fluctuate significantly as a whole during the Track Record Period. Moreover, we prefer large-scale recurring customers with whom we have established relationship and intend to maintain long-term business relationships with them. Servicing repeated orders from large-scale and recurring customers would allow us to lower our costs of R&D, production costs and production lead-time as the demands from these customers are usually larger. This will in turn improve our efficiency and profitability.

Non-biodegradable automobile plastic parts

The following table sets out the movement of the number of our non-biodegradable automobile plastic parts customers during the Track Record Period:

	2019	2020	2021	From 1 January 2022 up to 30 September 2022
As at the beginning of the year/period.	4	4	2	7
Addition of new customers during the relevant year/period ⁽¹⁾	—	—	5	1
Non-renewal of existing customers . . .	—	(2)	—	1
Net increase/(decrease) in customers . .	—	(2)	5	—
As at the end of the year/period	4	2	7	7

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Note:

- (1) The contract sum contributed by new customers was approximately RMB1.6 million, RMB0.8 million, RMB11.3 million and RMB8.8 million during the Track Record Period. During the Track Record Period, contribution from new customers is not material as we are more focused on cultivating business with our recurring customers.

Underlying reason for us to have a high revenue concentration from the largest five customers during the Track Record Period

We have a concentration of customers during the Track Record Period and for FY2019, FY2020, FY2021 and 9M2022, sales to our top five customers amounted to approximately RMB47.1 million, RMB93.9 million, RMB135.2 million and RMB104.1 million, representing approximately 45.8%, 56.3%, 52.7% and 48.6% of our total revenue, respectively, of which, Customer Group A, being our largest customer of FY2019, FY2021 and 9M2022 (and second largest in FY2020), accounted for approximately 15.5%, 14.6%, 16.1% and 15.1% of our total revenue for the same years/periods, respectively. This is largely due to:

- (i) from the customer's perspective, it is common for our major customers (mainly supermarket chains, department stores, and outlets) which had engaged suppliers to have place a high volume of standardised order or repeated order for produce bag rolls and/or shopping bags once they have selected a trust-worthy supplier as their order volume could enhance their bargaining power, quality assurance process and administrative efficiency. Therefore, if we decide to provide services to such customers, the relevant customer may easily become one of our major customers;
- (ii) from our perspective, given the high volume of standardised order or repeated order can lower our costs of R&D, production costs and production lead-time as the demands from these major customers are usually larger. This will in turn improve our efficiency and profitability; and
- (iii) according to Frost and Sullivan, the above mutual reliance relationship is an industry norm practice, and by maintaining the well-established business and co-operation relationship with these major customers, our Directors consider such arrangement has been bringing, and will bring, in additional commercial and financial benefits to us and would not be detrimental to our long term substantiality.

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Recurring customers⁽¹⁾ and the reason for us to have a high concentration of recurring customers during the Track Record Period

As each of our customers has their product specifications of biodegradable produce bag rolls and biodegradable shopping bags (such as size, thickness, colour, weight holding capacity, tear resistance and light transmittance), and the development of biodegradable produce bag rolls and biodegradable shopping bags with new properties requires time and effort, with repeat orders from the same customer it allows us to lower our R&D and production costs and production lead time. This, in turn, help to improve our profitability.

Hence, during the Track Record Period, we placed heavier emphasis to formulate our business plans to cultivate relationship with existing customers. Moreover, according to Frost and Sullivan, such business strategy is also an industry norm in the biodegradable plastic products market.

We have established stable and long-term relationships with our customers. Our five largest customers during the Track Record Period have established business relationship with us from three to seven years. Most of our revenue during the Track Record Period was derived from recurring customers, despite not having entered into any long-term sales framework agreement with us. For FY2019, FY2020, FY2021 and 9M2022, RMB101.1 million, RMB165.8 million, RMB245.3 million and RMB208.4 million, representing approximately 98.4%, 99.5%, 95.6% and 97.3% of the total revenue, was derived from our recurring customers.

During the Track Record Period, our recurring customers profile also included (i) an American multinational food and beverage company that is most well-known for its carbonated soft drinks; and (ii) a French-based multinational sports retailer. Given these customers possess business operations in Southeast China, our Directors are of the view that their Southeast China operations will also require biodegradable plastic products. Therefore, by leveraging our existing customer network, we are confident about the prospects of our business in Southeast China once our Huizhou Production Base enters into operation.

Note:

- (1) “Recurring customers” refer to any customer who purchased products from us during the Track Record Period for more than one year.

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Detailed plan with quantitative information on how the Company could be able to secure new orders from new and/or existing customers for the additional production volume

The existing policies on prohibiting the use of non-degradable plastic bags are mainly related to plastic bags. However, the PRC Government had further announced on the restriction on other plastic products recently. For example, in 2022, “9917 Project” was issued by The State Post Bureau which stated that “by the end of 2025, non-degradable plastic bags will be prohibited in postal and express outlets”.

Currently we have successfully developed and manufactured biodegradable express packaging bags. Sample products have been provided to China Post (中國郵政) for feedbacks. It is anticipated demand in biodegradable express packaging bags will be increased once the specification is finalised.

Sample express packaging bags developed by us



Moreover, other than various policies banning the usage of non-biodegradable shopping bags, there are also policies to prohibit or restrict the use of plastic utensils (i.e. tableware and straw) such as

- (i) Opinions on Further Strengthening the Control of Plastic Pollution (《關於進一步加強塑料污染治理的意見》) issued by the National Development and Reform Commission and Ministry of Ecology and Environment in 2020, which stated that by the end of 2020, non-biodegradable disposable plastic straws should be prohibited in the catering industry nationwide, and the use of non-degradable disposable plastic tableware should be prohibited in the dining services in certain areas; and
- (ii) Administrative Measures for Use and Report of Disposable Plastic Products (Draft for comments) (《一次性塑料製品使用、報告管理辦法(徵求意見稿)》) issued by Ministry of Commerce in 2021, which stated that catering operators should reasonably choose environment-friendly alternative products or disposable plastic products for takeout services.

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Although it is possible to use woods and bamboos as alternative raw materials, our Directors submit that woods and bamboos are generally used to produce disposable tableware with less complicated product design (such as chopsticks) in contrast to disposable plastic tableware (such as dinner plates, food containers, rice bowls, drinking cups, straw, lunchbox ...etc). According to Frost & Sullivan, characteristics of biodegradable plastic, being light, mouldable, durable and high-water resistance, would allow biodegradable plastic products to occupy a sustainable competitive position over woods and bamboos.

Sample food containers, straw developed by us



In any event, despite the expected annual maximum production capacity of biodegradable plastic products after expansion will increase from 6,440 tonnes to 46,368 tonnes (i.e., Changchun: 28,840 tonnes and Huizhou: 17,528 tonnes), the expansion plans are commercially justifiable given we expected there will be a potential increase in market demand, in terms of sales revenue of (i) biodegradable produce bag rolls and (ii) biodegradable shopping bags in China. According to Frost & Sullivan, the PRC market demand for (i) biodegradable produce bag rolls and (ii) biodegradable shopping bags is expected to reach approximately 522,000 tonnes by 2026, in terms of production volume.

Lastly, we have considered that the maximum capacity should be able to support its expansion not only for 2-3 years as the useful life of these production machines, if properly maintained, could be 10 years or longer. Therefore, based on the foregoing, our Directors consider the Expansion Plans is a practical and achievable target.

Details on the potential customers' intention or indicated interest from customers

For potential customers' intention or indicated interest from customers, please refer to our discussion progress with Customer Group B, Customer Group C and Customer V under subsection headed "— Reasons to expand in both Northeast and Southeast China". Moreover, as at the Latest Practicable Date, we have received orders from the following new customers as set out in the table below.

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	Customer's name	Product(s) to be procured	Contract signed	Date of contract signed	Sources of new customers
1	Customer U	Express packaging bags	Yes	July 2022	Referred by existing customers
2	Customer T	Produce bag rolls	Yes	October 2022	Through industry exhibitions
3	Customer S	Shopping bags	Yes	October 2022	Referred by existing customers
4	Customer R	Shopping bags	Yes	October 2022	Through industry exhibitions
5	Customer Q	Shopping bags	Yes	October 2022	Cold calling by us
6	Customer P	Shopping bags	Yes	October 2022	Referred by existing customers
7	Customer O	Shopping bags	Yes	October 2022	Cold calling by us
8	Customer N	Produce bag rolls & shopping bags	No	Contract signing process is in progress.	Cold calling by the customer itself
9	Customer M	Produce bag rolls	No	Contract signing process is in progress.	Referred by existing customers

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Prospective customers of our new products

As at the Latest Practicable Date, we have manufactured samples and/or entered into purchasing contract with the following prospective customers. We are of the view that below has demonstrated our potential customers' intention / interest in our Company's existing and new products.

<u>Name of prospective customer</u>	<u>Product(s) to be procured</u>	<u>Status as at the Latest Practicable Date</u>
<i>New customer</i>		
Customer V	Biodegradable produce bag rolls, biodegradable shopping bags	Sample products have been provided to customers for evaluation and the parties are finalising the order quantity and specification
<i>Existing customers</i>		
Customer Group C	Biodegradable produce bag rolls, biodegradable shopping bags, and, if required, other related products	Sample products have been provided to customers for feedbacks and the parties are finalising the order quantity and specification
Customer U	Express packaging bags	Products already delivered to customers and in use.

RAW MATERIALS AND MAJOR SUPPLIERS

Principal Raw Materials

The primary raw materials used in the manufacturing of biodegradable plastic products are PLA, PBAT and PBS, whereas the major raw materials used in the production of non-biodegradable automobile plastic parts are PP and PE. All our raw materials for production are purchased from suppliers located in the PRC.

In FY2019, FY2020, FY2021, 9M2021 and 9M2022, the cost of raw materials accounted for approximately 78.4%, 85.6%, 87.2%, 88.5% and 86.4%, respectively, of our total cost of sales.

BUSINESS

The following table sets out the breakdown of our total costs of raw materials during the Track Record Period:

	FY2019		FY2020		FY2021		9M2021		9M2022	
							(unaudited)			
	% of cost of		% of cost of		% of cost of		% of cost of		% of cost of	
	raw		raw		raw		raw		raw	
	RMB'000	materials	RMB'000	materials	RMB'000	materials	RMB'000	materials	RMB'000	materials
PLA, PBAT, PBS.	35,932	75.0	63,323	76.6	91,977	73.4	67,891	72.9	87,649	79.2
Consumables.	3,053	6.4	2,242	2.7	3,799	3.0	2,686	2.9	5,234	4.7
Other materials ⁽¹⁾	8,941	18.6	17,131	20.7	29,488	23.6	22,572	24.2	17,815	16.1
Total⁽²⁾	47,926	100.0	82,696	100.0	125,264	100.0	93,149	100.0	110,698	100.0

Notes:

- (1) Other materials include raw materials for automobile plastic parts such as PP, PE etc.
- (2) In FY2019, FY2020, FY2021, 9M2021 and 9M2022, raw material cost as a percentage of revenue were approximately 46.7%, 49.6%, 48.8%, 49.0% and 51.7%, respectively.

Procurement Planning

Our procurement department formulates the procurement plan for raw materials primarily based on specifications agreed with the customers, our prior experience on production, quantity, production complexity of the relevant products.

For raw materials where there are available inventories, our production department will place an internal raw material withdrawal request form to retrieve the necessary amount of raw materials from our warehouse. Since PLA, PBAT, and PBS are commonly used in our products, we formulate bulk purchase plan with reference to our historical purchase amount and raw material inventory level. Moreover, for the raw materials to be purchased from new supplier for the first time, or the raw materials that are expected to have material price fluctuation from time to time, our procurement team would request price quotations from alternative suppliers from our list of qualified suppliers to obtain the best price for such raw materials.

Our Suppliers

During the Track Record Period, all our suppliers were located in the PRC. We sourced the raw materials for our production, mainly including PLA, PBAT, and PBS from them. To the best of our knowledge, we sourced our raw materials from our suppliers in the PRC.

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As at 30 September 2022, we had 24 qualified suppliers. We adopt strict procedures in selecting our suppliers. We review background information of potential suppliers and assess their qualities from different aspects including their scale of operation, reputation in the industry, prices, quality control and financial position. Having met our selection criteria, such potential suppliers will become our qualified suppliers. We also evaluate our qualified suppliers and examine the validity of their relevant licences and permits, from time to time.

Although we have not entered into any long term or framework supply agreement with our suppliers, we do not foresee any significant difficulty in finding alternate suppliers for our raw materials. We believe this arrangement provides us with flexibility in choosing our suppliers and obtaining a competitive price for the raw materials we require in our production process.

During the Track Record Period, we did not experience any material return of raw materials sold from our suppliers. We have not experienced any material dispute with our suppliers, nor any disruption, shortage or delay in relation to the supply of our raw materials which may materially and adversely affect our operations and financial condition.

Our suppliers generally grant us a credit term ranging from cash on delivery to 60 days. We mainly settled payment with our suppliers in RMB by bank transfer and/or bank acceptance bills.

Our Major Suppliers

In FY2019, FY2020, FY2021 and 9M2022, transactions with our five largest suppliers in each year/period during the Track Record Period were approximately RMB42.5 million, RMB75.7 million, RMB99.5 million and RMB95.6 million, representing approximately 80.0%, 85.2%, 82.2% and 69.3% of our total purchase, respectively, over the same period. Purchases from our largest supplier in each year/period during the Track Record Period were approximately RMB12.1 million, RMB22.6 million, RMB35.1 million and RMB34.1 million, representing approximately 22.8%, 25.4%, 29.0% and 24.7% of our total purchase, respectively, over the same period. All of our major suppliers are Independent Third Parties.

The tables below set forth a summary of our five largest suppliers in FY2019, FY2020, FY2021 and 9M2022, respectively.

BUSINESS

FY2019

Rank	Supplier	Background	Products received by the Group	Purchase amount (approx.) (RMB'000)	% of total purchase	Business relationship since	Credit terms	Settlement method
1	Supplier Group A ⁽¹⁾	A group of companies located in Xinjiang. Their principal business are mainly production of chemical materials such as PET, PBAT and PBS.	PBAT, PBS	12,106	22.8	2014	within 60 days	bank transfer / bank acceptance bill
2	Supplier Group B ⁽²⁾	A group of companies located in Zhejiang Province. Their principal business are mainly production of PLA.	PLA	10,520	19.8	2017	within 60 days	bank transfer / bank acceptance bill
3	Supplier Group C ⁽³⁾	An A-share company listed in Shenzhen with registered capital of approximately RMB1.23 billion and one of its subsidiaries, which are located in Zhejiang Province, and their principal business are mainly production and sales of PLA and polymer materials.	PBAT	10,504	19.8	2015	within 60 days	bank transfer / bank acceptance bill
4	Supplier D	Established in 2012, located in Shanxi Province with a registered capital of RMB100 million. Mainly engages in production and sales of IUPAC (丁二酸) and PBAT.	PBAT	7,698	14.5	2016	within 60 days	bank transfer / bank acceptance bill
5	Changchun Hengxing	Established in 2004, located in Jilin Province with a registered capital of RMB6 million, and their principal business are mainly production and selling of automobile plastic products.	PP	1,662	3.1	2014	within 60 days	bank transfer / bank acceptance bill
Total				42,490	80.0			

BUSINESS

FY2020

Rank	Supplier	Background	Products received by the Group	Purchase amount (approx.) <i>(RMB'000)</i>	% of total purchase	Business relationship since	Credit terms	Settlement method
1	Supplier Group C ⁽³⁾	As disclosed in the table above.	PBAT	22,598	25.4	2015	within 60 days	bank transfer / bank acceptance bill
2	Supplier Group B ⁽²⁾	As disclosed in the table above.	PLA	18,196	20.5	2017	within 60 days	bank transfer / bank acceptance bill
3	Supplier Group A ⁽¹⁾	As disclosed in the table above.	PBAT, PBS	13,748	15.5	2014	within 60 days	bank transfer / bank acceptance bill
4	Supplier D	As disclosed in the table above.	PBAT	12,257	13.8	2016	within 60 days	bank transfer / bank acceptance bill
5	Changchun Hengxing	As disclosed in the table above.	PP	8,889	10.0	2014	within 60 days	bank transfer / bank acceptance bill
Total				<u><u>75,688</u></u>	<u><u>85.2</u></u>			

BUSINESS

FY2021

Rank	Supplier	Background	Products received by the Group	Purchase amount (approx.) <i>(RMB'000)</i>	% of total purchase	Business relationship since	Credit terms	Settlement method
1	Supplier Group C ⁽³⁾	As disclosed in the FY2019 table above.	PBAT	35,119	29.0	2015	within 60 days	bank transfer / bank acceptance bill
2	Supplier Group B ⁽²⁾	As disclosed in the FY2019 table above.	PLA	28,102	23.2	2017	within 60 days	bank transfer / bank acceptance bill
3	Supplier Group A ⁽¹⁾	As disclosed in the FY2019 table above.	PBAT, PBS	20,712	17.1	2014	within 60 days	bank transfer / bank acceptance bill
4	Supplier D	As disclosed in the FY2019 table above.	PBAT	9,519	7.9	2016	within 60 days	bank transfer / bank acceptance bill
5	Beijing Xingbeida Chemical Material Co., Ltd. (星貝達 (北京)化工材 料有限公司)	Established in 1998, located in Beijing with a registered capital of RMB5 million. Mainly engages in production and sales of polymer additive.	EBS, Erucamide	6,094	5.0	2015	within 60 days	bank transfer / bank acceptance bill
Total				<u>99,546</u>	<u>82.2</u>			

BUSINESS

9M2022

Rank	Supplier	Background	Products received by the Group	Purchase amount (approx.) <i>(RMB'000)</i>	% of total purchase	Business relationship since	Credit terms	Settlement method
1.	Supplier Group C ⁽³⁾	As disclosed in the FY2019 table above.	PBAT	34,082	24.7	2015	within 60 days	bank transfer / bank acceptance bill
2.	Supplier Group B ⁽²⁾	As disclosed in the FY2019 table above.	PLA	27,038	19.6	2017	within 60 days	bank transfer / bank acceptance bill
3.	Supplier Group A ⁽¹⁾	As disclosed in the FY2019 table above.	PBAT, PBS	17,555	12.7	2014	within 60 days	bank transfer / bank acceptance bill
4.	Supplier D	As disclosed in the FY2019 table above.	PBAT	8,579	6.2	2016	within 60 days	bank transfer / bank acceptance bill
5.	Supplier E	Established in 2010, located in Liaoning Province with a registered capital of RMB10 million, mainly engages in the production of chemical materials.	PBAT	8,373	6.1	2019 ⁽⁴⁾	within 60 days	bank transfer / bank acceptance bill
Total				<u><u>95,627</u></u>	<u><u>69.3</u></u>			

BUSINESS

Notes:

- (1) Supplier Group A comprises three companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with Supplier Group A is presented on common controlling party group basis.
- (2) Supplier Group B comprises a company established in the PRC and one of its subsidiaries.
- (3) Supplier Group C comprises a company established in the PRC and one of its subsidiaries.
- (4) We purchased additives from Supplier E from FY2019 to FY2021.

Our five largest suppliers during the Track Record Period are Independent Third Parties. To the best knowledge and belief of our Directors, (i) none of our Directors or any of their respective close associates or, any of our Shareholders who own more than 5% of the Shares in issue, had any interest in any of our five largest suppliers for the Track Record Period; and (ii) save for the sale and purchase of raw materials for our production, none of our five largest suppliers, their respective shareholders or any of their senior management had any past or present relationships (including but not limited to business, employment, family, trust, financing, fund flow or otherwise) with our Company, its subsidiaries, their respective shareholders, directors, senior management or any of their respective associates during the Track Record Period.

Whether the shortage of raw materials will have any adverse impact on our expansion plan

Our major raw materials, namely PLA, PBAT and PBS accounted for approximately 75.0%, 76.6%, 73.4%, 72.9% and 79.2% of the total costs of raw materials in FY2019, FY2020, FY2021, 9M2021 and 9M2022, respectively. The prices and availability of these major raw materials are sensitive to transport disruptions, government policies, general economic conditions, and many other factors that are beyond our control. We also have limited control over the supply and availability of these major raw materials. As a result, the shortage of raw materials might have adverse impact on our expansion plans.

Nonetheless, based on publicly available information, and within the knowledge of our Directors, our Directors are not aware that there has been and do not expect to have any material disputes with any of our major suppliers, and our Directors believe that we will be able to maintain business relationships with existing major suppliers in foreseeable future. In the event that any of our existing suppliers fail to deliver raw materials (or to satisfy our demand in terms of quality and quantity in a timely manner, or on commercially acceptable terms), we can purchase raw materials from our list of 24 qualified suppliers as alternative suppliers (as at 30 September 2022).

BUSINESS

ENTITY WHO IS OUR CUSTOMER AND ALSO OUR SUPPLIER

The following table sets out the details of our major customer with a dual role as our supplier during the Track Record Period:

Name of entity	Amount of sales and percentage to our total revenue	Ranking among our customers	Major products sold by us	Amount of purchases and percentage to our total purchases	Ranking among our suppliers	Major raw materials purchased by us	Gross settlement ⁽¹⁾
	<i>(RMB'000)</i>			<i>(RMB'000)</i>			
Changchun Hengxing	FY2019: RMB3,943 (3.8%)	5	Non-biodegradable automobile plastic parts, biodegradable shopping bags, biodegradable plastic stretch wraps	FY2019: RMB1,662 (3.1%)	5	PP	Yes
	FY2020: RMB16,186 (9.7%)	4	Non-biodegradable automobile plastic parts, biodegradable shopping bags, biodegradable plastic stretch wraps	FY2020: RMB8,889 (10.0%)	5	PP	Yes
	FY2021: RMB12,067 (4.7%)	5	Non-biodegradable automobile plastic parts, biodegradable shopping bags, biodegradable plastic stretch wraps	FY2021: RMB324 (0.3%)	13	PP	Yes
	9M2022: RMB10,090 (4.7%)	5	Non-biodegradable automobile plastic parts, biodegradable shopping bags, biodegradable plastic stretch wraps ⁽²⁾	9M2022: RMB4,801 (3.5%)	8	PP ⁽²⁾	Yes

Notes:

- (1) Each sales transaction and purchase transaction was negotiated, made and settled on a separate and individual standalone basis.
- (2) We purchased the raw material of our Group's non-biodegradable plastic products, including PP from Changchun Hengxing, while we sold non-biodegradable automobile plastic parts, biodegradable shopping bags and biodegradable plastic stretch wraps to Changchun Hengxing, which are of different nature. As such, our Directors consider a gross profit margin analysis not meaningful to investors. Furthermore, the raw materials purchased from Changchun Hengxing were not necessarily or solely used for the production of non-biodegradable automobile plastic parts sold to Changchun Hengxing during the Track Record Period.

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We sold to and purchased from Changchun Hengxing during the Track Record Period because, to the best knowledge and belief of our Directors, (i) Changchun Hengxing is a company specialising in selling (a) non-biodegradable automobile plastic parts; and (b) non-biodegradable plastic material including PP; (ii) PP is necessary for our production of certain non-biodegradable automobile plastic parts; and (iii) Changchun Hengxing was able to provide the required raw materials within the designated timeframe. As confirmed by our Directors, the raw materials purchased from Changchun Hengxing were not necessarily or only used for the production of non-biodegradable automobile plastic parts sold to Changchun Hengxing during the Track Record Period.

To the best knowledge and belief of our Directors, Changchun Hengxing and its ultimate beneficial owners are Independent Third Parties. Our Directors confirm that each transaction with Changchun Hengxing was (i) conducted through arm's length negotiation; (ii) conducted with the terms thereof being subject to negotiation in each individual order; (iii) independent and not inter-connected nor inter-conditional with each other; and (iv) made on a separate individual standalone order-by-order basis. During the Track Record Period, all products or materials purchased from and sold to Changchun Hengxing were completely different in nature.

QUALITY CONTROL

We have implemented a quality control system in accordance with the requirements under the relevant PRC laws and regulations and quality control measures throughout our manufacturing process.

Our quality control team is responsible for quality control management. They are responsible for identifying quality control issues and providing solutions to the production team to address the quality control issues. We allocate quality control staff to examine our products at each key stage of production to ensure that the quality of our products meets the product specifications. Our quality control team possess relevant knowledge and attend trainings in relation to the manufacture and product assessment on a regular basis.

As a biodegradable plastic products manufacturer whose products demand a high degree of consistency, accuracy and performance from its equipment and who are highly selective when choosing suppliers to meet its stringent technical specifications and quality standards, we are IATF16949 (Automobile Quality Management System), ISO9001 (Quality Management System) and ISO14001 (Environmental Management System) certified. We believe that our quality assurance procedures will help us remain competitive; and our experience and commitment to quality, coupled with the customisation we offer to our customers, will enable us to reinforce our current market position and create new business opportunities in the biodegradable plastic products industry in the PRC.

BUSINESS

Quality control of the biodegradability of our products

To ensure the biodegradability of our products, we adhere the following quality check procedure during the production process.

<u>Stage</u>	<u>Procedure related to biodegradability</u>
During raw materials preparation stage	Moisture content check Impurities/ash content check Density check Masterbatches composition check Viscosity check (measure of fluid's resistance to deformation at a given rate)
During film extrusion, shaping, cutting and pressing stage	Melt point check Melt flow index check (measure of the ease of flow of the melt of a polymer)
Final product	Internal and external quality check (see below)

Quality Check — Internal Testing

Typically, our QC technician will incubate the testing sample under decomposed fermented organic fertiliser environment. Then our QC technician will measure the carbon dioxide emitted from the test samples during the incubation period. To simulate a decomposed fermented organic fertiliser environment, mixtures of test samples and municipal solid waste are incubated in a composting vessel at a steady test temperature. As biodegradation of the samples will finally convert the organic carbon into carbon dioxide, the carbon dioxide content of the samples emitted from the composting vessel is used to calculate the degree of biodegradation of the samples.

Relevant equipment including gas chromatography, temperature controlling apparatus, pH metre, analytical balance, composting vessels (such as conical or erlenmeyer flasks or bottles that allow an even gas purge in an upward direction).

Quality Check — External Testing

On an irregular basis, we send our product to inspection agency for quality check (such as Jilin Province Product Quality Supervision and Inspection Institute (吉林省產品質量監督檢驗院), a government-related inspection institution) to ensure the Company's biodegradable products follow "GB/T 33798-2017" and "GB/T 38082-2019".

Biodegradability of our biodegradable shopping bags and biodegradable produce bag rolls

Our biodegradable produce bag rolls and biodegradable shopping bags are in compliance with "GB/T 33798-2017" and "GB/T 38082-2019", respectively. "GB/T 33798-2017" and "GB/T 38082-2019" are national standards for biodegradable plastic produce bag rolls and biodegradable plastic shopping bags, respectively, issued by the SAMR and the Standardisation Administration of the PRC (國家標準化管理委員會).

BUSINESS

According to the standards of GB/T 38082-2019 and GB/T 33798-2017 (as well as the specific testing methodology per GB/T19277.1-2011), the testing sample has to be exposed to inoculum derived from compost, and for the relevant sample to satisfy the biodegradability requirements under these standards, the relevant biodegradation rates within 180 days (six months) should be no less than 60%. Based on various test reports prepared by Jilin Province Product Quality Supervision and Inspection Institute (吉林省產品質量監督檢驗院), our biodegradable produce bag rolls and biodegradable shopping bags are in compliance with “GB/T 33798-2017” and “GB/T 38082-2019” during the Track Record Period.

Degradation timeline for each of our biodegradable plastic products⁽¹⁾

Under the relevant national standards GB/T 38082-2019 (i.e. for biodegradable plastic shopping bags) and GB/T 33798-2017 (i.e. for produce bag rolls), it did not set out any biodegradability requirements for the product being biodegraded at 25%, 50% and 100%. Under the statutory requirement of the relevant national standards, for the Company’s biodegradable products to satisfy the biodegradability requirements, the biodegradation rate within 180 days (six months) should be no less than 60%.

For illustrative purpose, we set out below the data obtained from testing reports prepared by Jilin Province Product Quality Supervision and Inspection Institute (吉林省產品質量監督檢驗院) showing the average decomposition timeline of our (i) biodegradable plastic shopping bags; and (ii) biodegradable produce bag rolls at 25%, 50%, 60% and 90%, respectively.

	Decomposition timeline ⁽²⁾			
	25%	50%	60%	90%
Biodegradable plastic shopping bags	25 days	35 days	43 days	117 days
Industry average ⁽³⁾	20-30 days	30-50 days	40-60 days	90-160 days
Biodegradable produce bag rolls	15 days	33 days	42 days	118 days
Industry average ⁽⁴⁾	15-25 days	30-50 days	40-60 days	90-160 days

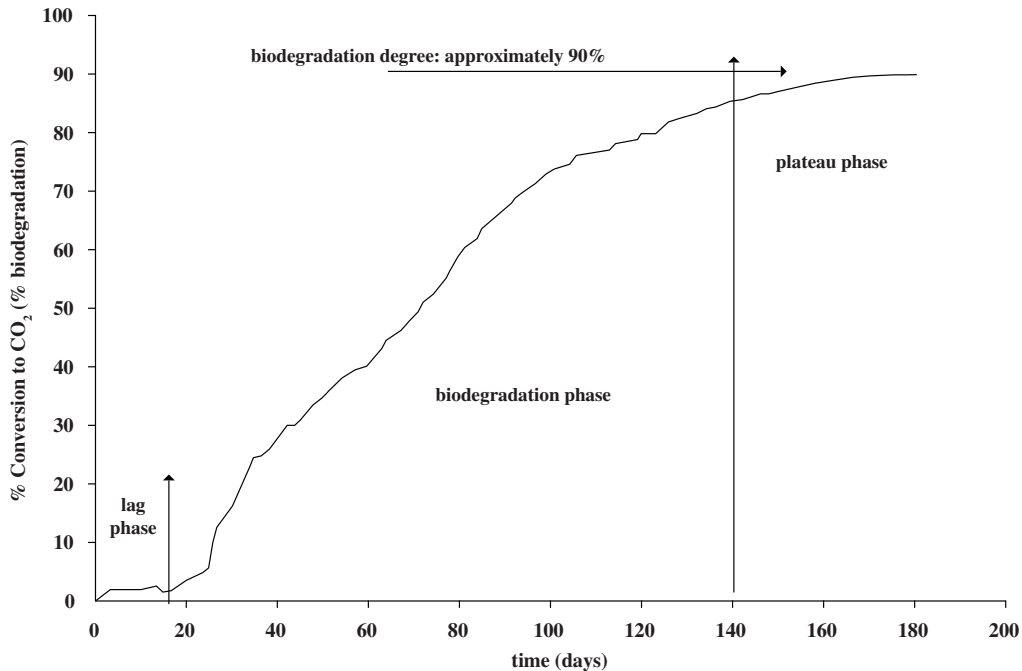
Whether it is possible to reach 100% decomposition under a controlled environment in the laboratory

The biodegradability of biodegradable plastic bags is tested under a controlled environment in the laboratory, typically by measuring the amount of CO₂ released when microorganisms degrade biodegradable plastics. Under a controlled environment, the concentration level of CO₂ released

Notes:

- (1) There is no specific national standards for stretch wraps and no data was available for such product.
- (2) Testing condition: Decomposed fermented organic fertiliser
- (3) Source: Frost & Sullivan analysis
- (4) Source: Frost & Sullivan analysis

recorded a curve, similar to the bacterial growth curve, which typically shows three phases (i) lag phase, (ii) biodegradation phase, and (iii) plateau phase. Below we set out a biodegradation timeline chart for illustrative purpose:



Note: For illustrative purposes only, data shown above is not related to our products. The data illustrated above is not intended to be indicative of the decomposition level or timeline of our products.

The plateau phase typically begins with around 90% biodegradation rate, such rate sometimes could gradually move towards 100% but usually flattens out for an indefinite period of time in the end. This is because under a controlled environment (i.e. inside a laboratory) the growth rate of bacteria will eventually reach a static state following a period of activity, that is from a scientific perspective, the growth rate of new bacteria equals the death rate of old bacteria. Even if there are nutrients (i.e. biodegradable plastic) left for bacteria to consume and grow, the rate of growth of the bacterial is limited by the accumulation of toxic compounds and the depletion of other nutrients in the testing sample. Therefore, eventually, the total number of bacteria falls as the death rate of bacteria is greater than the growth rate of bacteria.

As the total number of bacteria remains constant or falls as mentioned in the paragraph above, the biodegradation rate of plastic slows down and may eventually stops when all bacteria die. Therefore, in general circumstance, the biodegradable rate will not reach 100% (i.e. there will still be some plastic left undegraded when this happens).

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As such, although theoretically, it is possible for a biodegradable plastic bag to have a 100% biodegradable rate, there are practical difficulties to achieve such result, i.e. 100% degradation, even under a laboratory environment. Given the above constraints, we are not able to provide degradation data for its products being biodegraded at 100% but can only demonstrate the trend of its biodegradable process along the lines described above.

INVENTORY MANAGEMENT

Our inventory comprises raw materials and finished products. We do not record work-in-progress as our production lead time is generally less than one day. We have implemented an effective inventory control system that requires close co-ordination among our various functional departments including the procurement, production, R&D and finance departments. We closely monitor our inventory level to meet our production requirements, minimise any wastage on inventory and avoid obsolete inventory.

Raw Materials and Warehouse Management

Our inventory level is determined principally by our production requirements and the orders received by us; and we order additional raw materials on a needed basis. We continuously monitor our inventory level by conducting regular checks on quality and quantity. In addition, our procurement staff members work closely with our production staff members to formulate our procurement plan and budget.

Finished Goods

As we normally proceed to production pursuant to the confirmed orders placed by our customers, we do not maintain excessive inventory for finished goods.

As at 31 December 2019, 2020, 2021 and 30 September 2022, our finished goods balances amounted to approximately RMB17.9 million, RMB20.7 million, RMB7.3 million and RMB6.6 million, respectively.

RESEARCH AND DEVELOPMENT

As at 30 September 2022, our R&D department consisted of nine staff members and was headed by Mr. Shan. The majority of the members in our R&D team have over 14 years of experience in the biodegradable plastic products industry. During the Track Record Period, through the efforts of our R&D department and our collaboration with CIAC, we commenced a total of 14 R&D projects and completed 13 of them, with one still in progress, in relation to the

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manufacturing processes of our biodegradable plastic products. We own the intellectual property rights of all our R&D projects, and all profits and economic benefits deriving from our R&D projects belong to our Group and not our research partner.

The table below sets out our major R&D projects with CIAC completed during the Track Record Period:

Year of commencement of the project	Name of the Project	Details	Overall project sum <i>(RMB'000)</i> <i>(approximately)</i>	Status
2019	Development of an injection mould tool for degradable materials (一種用於降解材料的注塑模具的研發)	This project aims to improve the moulding result by utilising mercury conduction to energise an electromagnet to control the position of the electro-discharge port, allowing the heating wire to heat-up the raw materials in a more effective manner.	300	Completed
2019	Development of a high-speed film blowing machine (一種高速吹膜機的研發)	This project aims to improve the manufacturing process of film blowing, one of the key steps in our manufacturing process, which aims to improve the stretchability and cooling efficiency of plastic film.	360	Completed
2020	Development of an automated burr cutting device for plastic processing (一種塑料加工用自動化毛刺切割裝置的研發)	This project aims to improve the methodology of traditional burr cutting method, thereby improving manufacturing efficiency.	880	Completed
2020	Development of a multifunctional cooling device for plastic injection moulding (一種塑料注塑用多功能冷卻降溫裝置的研發)	This project aims to enhance the moulding separation techniques of our manufacturing process, thereby enhancing manufacturing efficiency.	1,100	Completed
2020	Development of an automated plastic parts punching device (一種自動化塑料零件打孔裝置的研發)	This project aims to improve the manufacturing process of hole-punching, one of the key steps in our manufacturing process.	880	Completed
2021	Blown film resin and film bag products (吹膜樹脂及膜袋製品)	This project aims to develop low cost and high starch content blown film resin and film bag products.	4,000	Completed

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Year of commencement of the project	Name of the Project	Details	Overall project sum	Status
			<i>(RMB'000)</i> <i>(approximately)</i>	
2022	Injection moulding resin and products (注塑樹脂及製品)	This project aims to study how to replace non-degradable injection moulding products with biodegradable injection moulding products such as lunch boxes, serving trays and tableware using PLA and PBS by using injection moulding. We conduct this research because of their tremendous market demand and compliance with social development regarding their application prospect.	500	Completed

The following table sets out the R&D projects we had commenced or anticipated to commence with CIAC as at the Latest Practicable Date:

Year of commencement of the project	Name of the Project	Details of research and its targeted results	Overall project sum	Status	Source of funding	Amount of net proceeds
			<i>(RMB'000)</i> <i>(approximately)</i>			<i>(RMB'000)</i> <i>(approximately)</i>
2021	Blown film resin compositions and film conformation (吹膜樹脂組成與薄膜構效)	Refer to page 221 for details	12,500	In progress (16.0% of the project was completed as at 30 September 2022, an additional 68.0% of the project is expected to be completed in 2022 and the first half of 2023 by internal funding, and the remaining 16.0% of the project is expected to be completed by 2023)	84.0% of the project is funded by internal funding, the remaining 16.0% will be funded by net proceeds from the Global Offering	2,000
2023	Composition and properties of resins for biodegradable injection moulding (注塑專用樹脂組成與性能構效)	Refer to page 221 for details	3,000	Contract signed but not yet commenced (expected to be completed in 2023)	Net proceeds from the Global Offering	3,000

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Year of commencement of the project	Name of the Project	Details of research and its targeted results	Overall project sum <i>(RMB'000)</i> <i>(approximately)</i>	Status	Source of funding	Amount of net proceeds <i>(RMB'000)</i> <i>(approximately)</i>
2023	Industrialisation technology of low-cost PBAT/PLA/starch membrane (低成本PBAT/PLA/澱粉膜的產業化技術)	Refer to page 222 for details	13,000	Contract signed but not yet commenced (expected to be completed in 2024)	Net proceeds from the Global Offering	13,000
2024	PBAT/PLA/PPC blown film resin and bag making technology (PBAT/PLA/PPC吹膜樹脂及製袋技術)	Refer to page 222 for details	9,000	Contract signed but not yet commenced (expected to be completed in 2024)	Net proceeds from the Global Offering	9,000
2024	Low-cost injection moulding process (低成本注塑製品成型加工)	Refer to page 222 for details	3,000	Contract signed but not yet commenced (expected to be completed in 2024)	Net proceeds from the Global Offering	3,000
2024	PBAT/PLA/PPC agricultural mulch resin and blown film (PBAT/PLA/PPC地膜專用樹脂及吹膜)	Refer to page 223 for details	1,500	Contract signed but not yet commenced (expected to be completed in 2024)	Net proceeds from the Global Offering	1,500
2024	Optimisation of injection moulding resin and product technology (注塑樹脂及製品技術優化)	Refer to page 223 for details	3,500	Contract signed but not yet commenced (expected to be completed in 2024)	Net proceeds from the Global Offering	3,500
Total						<u>35,000</u>

Background of Chinese Academy of Sciences, Changchun Institute of Applied Chemistry

Chinese Academy of Sciences, Changchun Institute of Applied Chemistry (CIAC) was founded and established in 1948 and has been involved in scientific research and discovery for over 70 years. CIAC is a multidisciplinary chemistry institute, comprising 10 laboratories and units that conduct basic and applied research and high-tech innovation in polymer sciences. CIAC's research focuses on resources and the environment; advanced materials; and new and

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renewable energy. As at the end of 2021, CIAC had 895 employees, including 490 scientists, of whom 140 are full-time professors. CIAC has seven fellows from the Chinese Academy of Sciences and four fellows from The World Academy of Sciences on its staff list.

AWARDS AND RECOGNITIONS

The table below sets out our major awards or recognitions achieved as at the Latest Practicable Date:

Award/Recognition	Entity	Awarding authority/entity or certification body	Date of grant/ Validity period
Certificate of Technology Small Giant Enterprise of Jilin Province	Jilin Kaishun	Jilin Provincial Department of Science and Technology, Jilin Provincial Department of Industry and Information Technology, Jilin Province Department of Finance	2017
Recognised as “Green Factory” under the 2020 Second Batch Provincial Manufacturing Demonstration Projects	Jilin Kaishun	Jilin Provincial Department of Industry and Information Technology	April 2020
Provincial Certification Enterprise Technology Centre	Jilin Kaishun	Jilin Provincial Department of Industry and Information Technology, JPDRC, Jilin Provincial Department of Science and Technology, Jilin Province Department of Finance, Changchun Customs District of PRC, Jilin Provincial Taxation Service Bureau of SAT	August 2021
Certificate of High and New Technology Enterprise*	Jilin Kaishun	Jilin Provincial Department of Science and Technology, Jilin Province Department of Finance, Jilin Provincial Taxation Service Bureau of SAT	September 2021 — September 2024
GB/T 19001-2016/ ISO9001:2015 — Quality Management Systems	Jilin Kaishun	Zhongjian Certification Co., Ltd.	March 2021 — March 2024

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<u>Award/Recognition</u>	<u>Entity</u>	<u>Awarding authority/entity or certification body</u>	<u>Date of grant/ Validity period</u>
GB/T 24001-2016/ ISO14001:2015 — Environmental Management Systems.	Jilin Kaishun	Zhongjian Certification Co., Ltd.	March 2021 — March 2024
GB/T 45001-2020/ ISO 45001:2018 — Occupational Health and Safety Management Systems	Jilin Kaishun	Zhongjian Certification Co., Ltd.	April 2021 — March 2024
IATF 16949:2016 — Quality Management Systems	Jilin Kaishun	Shanghai NQA Certification Co., Ltd.	February 2022 — February 2025

MARKET AND COMPETITION

Competitive landscape

Biodegradable plastic products market

According to the Frost & Sullivan Report, the disposable biodegradable plastic products market in China is relatively fragmented with approximately 1,200 market participants as at 31 December 2021.

The major challenge we may face is the rising costs of raw materials. According to the Frost & Sullivan Report, the price of PBAT and PLA is greatly affected by the prices of their unprocessed materials, such as BDO, PTA and corn. The supply of BDO is restricted because of the shortage of its primary material calcium carbide, and the limited supply of BDO increased the price of PBAT. The unstable supply of raw materials may directly affect the profitability of biodegradable plastic product manufacturers.

We may also have to face competition from new market entrants in the industry, notwithstanding the key entry barriers they may need to break through, such as technology capability, talent reserve, customer relationship and initial investment.

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Biodegradable plastic masterbatches market

The biodegradable plastics masterbatches market in the PRC is relatively concentrated. As of 31 December 2021, there were over 30 biodegradable plastics producers that produce biodegradable plastic masterbatches in the PRC, with the top five producers accounting for approximately 48.0% in terms of production capacity of biodegradable plastic masterbatches and the annual revenue of masterbatches amounted to approximately RMB8,426 million in 2021.

Key market drivers

According to the Frost & Sullivan Report, the development of disposable biodegradable plastic products market in the PRC relies on the policies and regulations introduced by the PRC government. For example, the issue of Opinions on Further Strengthening the Control of Plastic Pollution (《關於進一步加強塑料污染治理的意見》) in 2020, the issue of Administrative Measures for Use and Report of Disposable Plastic Products (Draft for comments) (《一次性塑料製品使用、報告管理辦法(徵求意見稿)》) in 2021, and the issue of the Administrative Measures for Use and Report of Disposable Plastic Products (2nd Draft for comments) (《一次性塑料製品使用、報告管理辦法(第二次徵求意見稿)》) in January 2022 have encouraged the reduction of the use of non-degradable plastic products and increased the sales of disposable biodegradable plastic products in recent years.

Moreover, in 2020, the PRC government announced the goals of carbon peak and carbon neutrality, and proposed to implement the goal of national independent contribution to strive to reach the peak of carbon dioxide emissions by 2030 and mounting efforts to achieve carbon neutrality by 2060. It is expected that the application of biodegradable plastic products will contribute to a great amount of carbon reduction. This has promoted the development of the biodegradable plastic products market, and thus increasing the demand of biodegradable plastic products.

INSURANCE

During the Track Record Period, our insurance coverage included general insurance for our fixed assets (e.g. production facilities equipment and machineries), raw materials and finished goods, and employees.

In FY2019, FY2020, FY2021, 9M2021 and 9M2022, we incurred insurance expenses of approximately RMB0.1 million, RMB0.2 million, RMB0.1 million, RMB0.1 million and RMB0.1 million, respectively. Our Directors are of the view that our insurance coverage is in line with the

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general coverage in the industry and is adequate for our operation. During the Track Record Period and up to the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

OCCUPATIONAL HEALTH AND SAFETY

We have implemented safety measures at our production facilities to ensure compliance with the applicable PRC laws and regulations on labour, safety and work-related incidents. We have in place safety production management measures, which include standard operating procedures and safety management procedures to ensure the safety of our employees and properties at the workplace. We also provide our employees with training programmes on workplace safety to ensure that all of our employees are aware of our safety procedures and policies, which include guidelines for safety management, emergency situations and proper operation and usage of equipment and machinery.

During the Track Record Period and up to the Latest Practicable Date, no material incidents or complaints relating to personal injury or workplace safety were reported to our management and we were not subject to any claims, lawsuits, penalties or disciplinary actions arising from any material incidents involving personal injury or workplace safety that have had a material adverse effect on our business, financial condition and results of operations.

TRANSMISSION OF THE COVID-19 PANDEMIC

Since early 2020, a growing number of countries and regions around the world have encountered an outbreak of COVID-19, a highly contagious disease known to cause respiratory illness. On 11 March 2020, the World Health Organisation announced the COVID-19 outbreak as a global pandemic. The spread of COVID-19 continues to affect China, where we conduct our business.

Impact on our business operation and our preventive measures

To prevent the transmission of COVID-19 to and among our employees, we have implemented a series of preventive measures to monitor the health conditions of our employees and maintain a hygienic working environment inside our production facilities. These preventive measures include mandatory wearing of surgical masks during working hours, provision of hand sanitiser, checking of body temperature and health codes before entering into the production facilities, social distancing maintained in between the working stations, and regular disinfection of the production facilities.

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As our biodegradable plastic products are fast-moving products and we have an established customer base, there was no material impact on our sales because of the outbreak of COVID-19. On the contrary, there is a growing demand on the use of plastic bags (including biodegradable shopping bags), as a result of increasing awareness of personal hygiene and demand of medication. Therefore, despite the fact that we have difficulties to conduct visits and conduct face-to-face meetings with our customers during the material period, our sales team still managed to maintain business relationships with our recurring customers and capture business opportunities with new customers through phone calls and/or instant messaging software.

Impact on our financial performance

There was an increase in the sales volume of our biodegradable plastic products from FY2019 to FY2021. Such increase in the sales volume of our products was mainly due to an increase in demand from our major customers driven by the increase in sales of perishable food and fruit in supermarket chains during the COVID-19 pandemic, which required extensive use of biodegradable produce bag rolls and increase in consumption in supermarket chains resulted in the increase in usage of biodegradable shopping bags. The transmission of COVID-19 in Jilin province since March 2022 has impacted us in various ways. On one hand, we encountered decline in demand as some of our customers were ordered to operate with restricted opening hours or to shut down temporarily. Travel and transportation restrictions also increased our suppliers' difficulties to deliver their products to us, as well as for us to deliver our products to our customers. Our business operation from March to April 2022 negatively affected by the temporary lockdown in Changchun, which resulted in a fall in revenue for our biodegradable plastic products in the two months. Since May 2022, our business gradually picked-up.

For the nine months ended 30 September 2022, there was a strong demand for biodegradable produce bag rolls and biodegradable shopping bags as they were crucial for delivery of foods and daily necessities to local residents. Accordingly, some of our major customers during the Track Record Period were endorsed by the local authorities as “Key enterprise to provide daily necessities” (重點保供企業), and their operations were subject to restrictions to a lesser extent. For the nine months ended 30 September 2022, our financial performance recorded an increase in revenue as compared of the same period in 2021.

Our Directors confirm that our Group has sufficient financial resources after taking into account various factors, including our internally generated cash, our available credit and financing facilities and the estimated net proceeds from the Global Offering, and in the absence of unforeseeable circumstances, our Directors confirm, and the Sole Sponsor concurs, that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

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Based on the above, we did not consider the COVID-19 pandemic have any material adverse impact on our business operations and financial performance throughout the Track Record Period and up to the Latest Practicable Date. However, our Directors are aware of the potential rebound of the COVID-19 pandemic in the PRC, and in the event of which, our business and financial conditions may be affected. For details, please refer to the subsection headed “Risk Factors — The transmission of COVID-19 and any future natural disasters, acts of God, outbreak of any contagious disease or any other epidemics may adversely affect our business, results of operations and financial condition” in this prospectus.

ENVIRONMENTAL PROTECTION

With environmental consciousness, we strive to benefit our environment by using resources responsibly, and reducing production waste. Our operations are subject to environmental protection laws and regulations promulgated by the PRC government, a summary of which is set out in the section headed “Regulatory Overview” in this prospectus. During our manufacturing process, as we use heat or pressure to mould and shape plastics from granules, powders, masterbatches or pellets of plastic resins, there are chances that toxic plastic fumes may be emitted during our manufacturing process. We consider environmental protection one of our primary duties and have adopted a number of measures to reduce the environmental impact of our production process. For example, we have installed adequate air-filtering units to purify the air, before the air is emitted and discharged into the surrounded atmosphere. Furthermore, as we might generate industrial noise during our manufacturing process, we have installed vibration-cancelling and noise-reduction devices to ensure the level of noise we emit is within the permissible level in accordance with national environmental standards.

Our PRC Legal Advisers are of the view that our business operations are in compliance with all applicable PRC environmental laws and regulations in all material aspects during the Track Record Period. In addition, we have not been involved in any environmental pollution incidents or other illegal environmental acts or in breach of any national and local laws and regulations on environmental protection in any material aspect.

During the Track Record Period, we were not subject to any production limit imposed by the PRC government in respect of environmental protection or other purposes. During the Track Record Period, we did not incur any material costs for the compliance with applicable environmental protection rules and regulations in the PRC. We believe that such costs of compliance will not be material going forward.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Governance on environmental-related risks, climate-related risks and opportunities, and social responsibilities, including the respective roles and extent of involvement of our Directors and senior management of our Group

We acknowledge our responsibilities on environmental protection and preservation, social responsibilities and are aware of the climate-related issues that may have impact on our business. We are committed to complying with environmental, social and governance (“ESG”) reporting requirements upon Listing. We have established an ESG policy (the “ESG Policy”) in accordance with the standards of Appendix 27 to the Listing Rules which outlined the following:

- (i) the appropriate risk governance on ESG matters, including climate-related risks and opportunities;
- (ii) identification of key stakeholders and the communication channels to engage with them;
- (iii) the identification of key performance indicators (“KPIs”), the relevant measurements and mitigating measures; and
- (iv) environmental incident reporting procedure and mitigating measures.

Our Board has the overall responsibility for overseeing and determining our Group’s ESG-related, climate-related and social-related risks and opportunities impacting the Group, establishing and adopting the ESG Policy and targets of our Group, reviewing our Group’s performance annually against ESG-related targets and revising the ESG strategies as appropriate if significant variance from the target is identified.

Our Board has established an ESG Committee that comprises four of our Directors, which included Mr. Shan, Mr. Li Peng (being our executive Director, and vice president of the production department, respectively), Dr. Sun Shulin, and Dr. Lai King Yin. The ESG Committee is chaired by Dr. Sun Shulin, and serves as a supportive role to our Board in implementing the ESG policy, targets and strategies, conducting materiality assessments of environmental-related, climate-related, social-related risks and assessing how our Group adapts its business in light of climate change, collecting ESG data from different parties while preparing for the ESG report, and continuous monitoring of the implementation of measures to address our Group’s ESG-related risks and responsibilities. The ESG Committee is also responsible for the investigation of deviation from targets and liaising with the responsible party or functional department to take prompt rectification

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actions. The ESG Committee reports to our Board on a half-yearly basis via board meeting on the ESG performance of our Group and the effectiveness of these ESG systems, while the Audit Committee is also responsible for reviewing our risk management systems.

The actual and potential impact of environmental-related and social-related risks and climate-related issues on our business, strategy and financial performance

Our operations at production facilities are subject to certain environmental requirements, including those in relation to air, water, noise and solid waste pollutions, as well as production safety and labour protection requirements pursuant to the laws of the PRC.

The key relevant laws and regulations that should be abided by our Group are detailed below:

Environmental-related and social-related risks	Possible impacts and consequences on our Group
(i) General Environmental Provision	Non-compliance with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) may be subject to orders to correct, fines, suspension of operations and closing-down of business, as determined by the Competent Department of Environmental Protection Administration or any other relevant governmental authorities.
(ii) Air pollution and emissions	Non-compliance with the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) may be liable to a fine ranging from RMB20,000 to RMB1,000,000, or may be subject to suspension of operations and closing-down of business or bearing the criminal responsibility, depending on the gravity of the matter.
(iii) Water pollution	Non-compliance with the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) may be liable to a fine ranging from RMB20,000 to RMB1,000,000, or may be subject to suspension of operations and closing-down of business or bearing the criminal responsibility, depending on the gravity of the matter.

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Environmental-related and social-related risks

Possible impacts and consequences on our Group

According to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (《排污許可管理辦法(試行)》), failure to monitor the industrial exhaust, hazardous atmospheric or water pollutions, may be ordered to make correction and be liable to a fine ranging from RMB20,000 to RMB200,000 or suspension of operations if refusing to make correction; discharging pollutant without the pollutant discharge permit or violating the pollutant discharge permit may be liable to a fine ranging from RMB100,000 to RMB1,000,000 and suspension of operations or closing-down of business.

(iv) Noise pollution

Non-compliance with the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》) which has been replaced by the Law of the PRC on Noise Pollution Prevention and Control (《中華人民共和國噪聲污染防治法》) on 5 June 2022, may be subject to correction within a time limit and a fine, or warnings, suspension of operations and closing-down of business, depending on the gravity of the matter.

(v) Environmental Impact Assessment

Non-compliance with the Environment Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) may be subject to suspension of construction project and a fine of not less than 1% but not more than 5% of the total investment of the construction project, or be ordered to make restitution for failure to go through the required approval procedures; or be subject to a fine up to RMB50,000 for failure to go through the required record-filing procedures.

Non-compliance with the Administrative Regulations on Environmental Protection for Construction Projects (《建設項目環境保護管理條例》) may be liable to a fine ranging from RMB50,000 to RMB2,000,000, or may be ordered to stop construction projects or be subject to suspension of operations and closing-down of business, depending on the gravity of the matter.

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**Environmental-related and
social-related risks**

Possible impacts and consequences on our Group

(vi) Production and
Occupational
Safety

Non-compliance with the Production Safety Law of the PRC (《中華人民共和國安全生產法》) may be subject to suspension of operations or fine up to RMB100,000,000, and may be subject to suspension of operations and closing-down of business or revocation of the relevant licences or bearing the criminal responsibility, depending on the gravity of the matter.

Non-compliance with the Measures for the Supervision and Administration of “Three Simultaneities” for the Safety Facilities of Construction Projects (《建設項目安全設施“三同時”監督管理辦法》) may be subject to administrative penalties, warnings, suspension of construction projects or suspension of operations, and a fine ranging from RMB5,000 to RMB1,000,000 or bearing the criminal responsibility, depending on the gravity of the matter.

If our Group breaches any environmental-related and social-related laws or regulations, or faces any accusation of negligence in environmental or labour protection, and product quality, in addition to the potential fines and penalties, such incidents may also adversely affect our reputation and creditability. Our business opportunities may be negatively impacted, for instance, when engaging with existing and potential customers, they may be less willing to purchase from us because of our reputational damage and loss of creditability.

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in the paragraph headed “Non-compliance” in this section, we were not aware of any material social-related risks that negatively impact our business and financial performance. To the best knowledge and belief of our Directors, there is no material non-compliance or violations of environmental protection, production safety, and labour protection laws and regulations currently exist or persist that could adversely affect our business operations and financial conditions.

Potential acute and chronic physical risks from climate change

Apart from the environmental-related and social-related risks, our Group has also observed the potential acute and chronic physical risks from climate change such as extreme weather conditions like flooding and snowstorms, which may have potential financial implications for our Group.

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Our production facilities are located in Jing-Er Road, Kalun Industrial South Region, Jiutai Economy Development Zone, Changchun, Jilin province, the PRC, which may be subject to the risks of flooding or snowstorms. However, given the geographical location of our production facilities, our Directors consider our exposure to these risks are relatively low. In any event, we have developed contingency measures to response to these risks.

Our qualified suppliers are based in the PRC, and we may experience indirect impacts from supply chain disruption if our suppliers suffer from extreme weather conditions like flooding or snowstorms. Upon evaluation of these potential risks that could cause disruption to our manufacturing and supply network, we have maintained a pool of qualified suppliers containing different suppliers locating in different geographic regions. As such, we have not been impacted by flooding or snowstorms since our establishment and our risk of exposure to extreme weather conditions such as flooding and snowstorms are relatively low.

Meanwhile, our Group maintains a pool of qualified suppliers, which we have 10, 14, 20 and 24 qualified suppliers on our list of qualified suppliers for procurement of raw materials for FY2019, FY2020, FY2021 and 9M2022, respectively, and we can source from alternate qualified suppliers if certain suppliers are affected by extreme weather conditions to reduce the risk of supply chain disruption.

Our production involves the use and storage of inflammable raw materials, such as PBAT, PP and PE that might cause fire or explosion when exposed to sustained high temperature and the accumulation of pressure. In the event of these accidents, there could be financial losses due to fatalities, damage of equipment and disruption of operation. Our Group has adopted numerous measures in managing such risks.

Potential transition risk may result from the transitioning to a lower-carbon economy which entails a change in climate-related regulations and policy. Tightened environmental regulations and the future launch of a nationwide emission trading scheme may contribute to an increase in price of the major raw materials and thus an increase in cost or increase in tax. For further details about increase in price and availability of the major raw materials, please refer to the subsections headed “Financial Information — Significant Factors Affecting our Results of Operations and Financial Condition — Prices of our Major Raw Materials” and “Risk Factors — Risks relating to our business and industry — Our results of operations are significantly affected by fluctuation in the prices and availability of our major raw materials” in this prospectus.

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How our Company identifies, assesses and manages environmental-related risks, social related risks and climate-related issues

Our Group will conduct enterprise risk assessment at least once a year to cover the current and potential risks faced by us in our business, including, but not limited to the risks arising from the ESG aspects strategic risk around disruptive forces such as climate change. Our Board will assess or engage Independent Third Parties to evaluate the risks and review our Group's existing strategy, target and internal controls, and necessary improvements will be implemented to mitigate the risks. Our Board, ESG Committee and Audit Committee will maintain oversight of our Group's approach to risk management.

In order to manage the environmental-related risks, social sustainability risks and climate-related issues, our Board has adopted the measures to tackle the risks identified during the enterprise risk assessment and has ensured that any potential risks inherent in our business operations or issues that may impact our operations are minimised. Risks are monitored as part of our standard operating processes to ensure the appropriate mitigations are in place as part of the regular management reviews.

Our Group's ESG strategy, the climate-related risks and opportunities our Group has identified over the short, medium, and long term, and impact on our Group's business, strategy and financial planning

In response to the climate-related risks and opportunities as mentioned in the above subsection "The actual and potential impact of environmental-related and social-related risks and climate-related issues on our business, strategy and financial performance", which is the physical risk and transition risk, our Board and ESG Committee will evaluate the likelihood of occurrence and the estimated magnitude of resulting impacts over short term (1–2 year), medium term (3–5 year) and long-term (6–10 year) horizons. The decision to mitigate, transfer, accept or control a risk is influenced by various factors such as the production plant location and policy change. Our Group will incorporate physical and transition risk analysis into risk assessment processes and risk appetite setting. If the risks and opportunities are considered to be material, our Group will incorporate them into the strategy and financial planning process. It is expected that the extreme weather condition, sustained higher temperature for potential physical risks, and changes in climate-related regulations and policy for potential transition risks do not have a material impact on our operation in the short and medium term. Nevertheless, our Group has set short-term and medium-term targets and implemented relevant measures for reduction in Green House Gas ("GHG") emissions and air emissions. For details, please refer to the subsection headed "The metrics and targets used to assess and manage such risks and issues" in this section.

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We also aim to minimise the transition risk in the long term by enhanced energy efficiency⁽¹⁾, adoption of green supply chain⁽²⁾ and consumption of renewable energy⁽³⁾, and we are committed to our emission reduction targets⁽⁴⁾. This not only reduces our exposure to transition risk but also improves the environmental performance of our products. Upon annual review of the progress against our targets for addressing climate-related issues, our Group may revise the ESG strategies as appropriate.

During the Track Record Period, we achieved the following measures to enhance energy efficiency and adopt the green supply chain:

- we have installed sufficient air filtration devices, waste water treatment devices and noise reduction devices, to ensure that the level of discharged waste water, waste gas and noise emitted are within the levels allowed by national environmental standards of the PRC. In addition, we also arrange the regular maintenance of the environmental protection device to keep the working efficiency of the device to meet the needs.
- we engaged an external consultant to inspect the emissions and issue the test report. We will immediately resolve any abnormalities found.
- any production waste, used materials (such as leftovers), and unqualified or outdated products will be returned to the biodegradable plastic masterbatch tank for reuse.
- these environmental measures are documented in a written policy that is reviewed and updated regularly to ensure that all environmental measures are adequate and appropriate.
- we achieved by batch preheating, process optimization during film extrusion, shaping, cutting, and pressing, purchase energy saving equipment, using a purifying agent to decrease impurities, better control of humidity and temperature of the raw materials and masterbatches, plant layout optimization, etc
- during the packaging process and transportation process, we packed our products in boxes made from recycled materials and our logistics service provider (or our logistics team) uses the eco-friendly vehicle and premium class (higher-octane) unleaded petrol which is designed to be more fuel efficient and lead to a smoother engine operation.

Although we adopted the same ESG measurement for all segment during our daily operations, we also adopted the following measurement specially for non-biodegradable automobile plastic segment to enhance the manufacturing process towards the ESG matter.

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- We committed to improving product techniques, and organising training in more advanced production techniques to improve processes and minimise consumption and waste.
- Also, during our manufacturing process, semi-finished products are prepared to specifications that are safe for workers and the environment.

In order to meet the target set by our Company (i.e. to reduce the GHG emission intensity by at least 2.0% in the three year-end 2025 compared to FY2021, and in the longer term (i.e. 10 years), at least 10.0% by year-end 2032 compared to FY2021), we will explore the possibility of using clean energy as one of our energy sources and also to source and consider to use new energy vehicle to replace the existing vehicle.

Whether there is any environmental impact of our Group's biodegradable and non-biodegradable products manufacturing process

Toxic plastic fumes emission

During the manufacturing process, we mixed plastic polymers according to specifications for the production of plastic masterbatches. The plastic masterbatch will melt under controlled conditions (mainly by heat and pressure) until it becomes liquefied and pliable. The molten plastic is then poured through an injection moulding machine into various plastic parts. Plastic parts will be welded into the specified form and structure before final trimming and fixing.

During the production process, because the granules, powder, masterbatch or pellets of plastic resin are poured into plastic by heating or pressure, toxic plastic fumes may be emitted. To neutralise the toxic plastic fumes, we have installed HEPA filters and activated carbon filtration to capture plastic fumes before they enter the atmosphere or operator's breathing zone. Activated carbon filters adsorb chemical fumes, while the HEPA filter captures small particles.

Below we set out the amount of exhausted gas, particulates emitted, non-methane hydrocarbons emitted and emission rate in our production process during the Track Record Period:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>9M2022</u>
Exhaust Volume (m ³)	17,169,600.00	17,384,640.00	17,384,640.00	13,345,920.00
Particulates (kg)	196.31	205.14	227.74	173.05
Non-methane hydrocarbons (kg)	17.63	17.91	20.57	21.89
Emission rate (kg/h)	0.03	0.03	0.03	0.03

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Noise emission

In addition, to ensure the noise emitted is within the level allowed by national environmental standard, we have installed noise reduction devices and the day time noise emitted during the Track Record Period was 52.3db, 54.0db, 53.2db, and 52.7db as at 22 October 2019, 11 November 2020, 1 November 2021, and 11 August 2022.

Environmental-related national standards relevant to our production process

Below is a summary of environmental-related national standards we are subjected for our production process ^(Note):

Particulates & non-methane hydrocarbons

National standard	Key content	Requirement
GB 31572-2015 Emission standard of pollutants for synthetic resin industry (合成樹脂工業污染物排放指標) . . .	This standard specifies the emission limits, monitoring, supervision and management requirements for water pollutants and air pollutants (such as particulates & non-methane hydrocarbons) from synthetic resin industrial enterprises and their production facilities (including the enterprises for synthetic resin processing and waste synthetic resin recycling and processing as well as their production facilities).	Within 30 (mg/m ³)

Emission rate

National standard	Key content	Requirement
GB 16297-1996 Integrated emission standard of air pollutants (大氣污染物綜合排放標準).	This standard specifies the emission limit for 33 kinds of air pollutants. And it also specifies various requirements for executing this standard. This standard includes pollution source air pollutants emission management; as well as environmental impact evaluation, design, environmental protection facilities, completion acceptance of construction project; and air pollutants emission management after it is put into operation.	Within 10 x 10 ⁻² (kg/hour)

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Noise emission

National standard	Key content	Requirement
GB 12348-2008 Emission standard for industrial enterprises noise at boundary (工業企業廠界環境噪 音排放標準)	This standard specifies the emission limit and measurement methods of the environmental noise of the industrial enterprises and equipment at boundary. This standard applies to the management evaluation and control of noise emission from industrial enterprises. Industrial enterprise noise refers to the noise generated by using fixed equipment in industrial production activities, which is measured and controlled at the factory boundary, interferes with the surrounding living environment.	Below 65dB (day time) ⁽¹⁾ Below 55dB (non-day time) ⁽¹⁾

Note:

- (1) Under the categorisation of GB/T 15190-2014 Technical Specifications For Regionalizing Environmental Noise Function (聲環境功能區劃分技術規範), our production facilities are located in Zone 3 (i.e., areas with industrial production as main operation)

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material incident that may lead us fail to comply with the above national standards (as well as relevant local environmental-related standards). As advised by our PRC Legal Advisers and to the best knowledge and belief of our Directors, there is no material non-compliance or violations of any environmental protection laws and regulations currently exist or persist that could adversely affect our business operations and financial conditions during the Track Record Period.

Whether there is any environmental impact during the degradation of our Company's biodegradable products, including whether it would generate any levels of toxicity

Our Directors consider all (i) biodegradable produce bag rolls; and (ii) biodegradable shopping bags manufactured by us comply with the national standards “GB/T 33798-2017” and “GB/T 38082-2019” respectively. These standards issued by the SAMR and the Standardisation Administration of the PRC are the only national standard that are related to the specification of (i) biodegradable produce bag rolls; and (ii) biodegradable shopping bags.

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Based on the various reports issued by Jilin Province Product Quality Supervision and Inspection Institute regarding compliance with national standard, our Directors did not observe any information or data suggesting the samples tested (i.e. (i) biodegradable produce bag rolls; and (ii) biodegradable shopping bags) would generate any levels of toxicity (excluding CO₂) during its biodegradation process.

Notwithstanding the above, we wish to mention that during the biodegradation process of (i) biodegradable produce bag rolls; and (ii) biodegradable shopping bags, greenhouse gases including carbon dioxide (CO₂) will be generated at an average rate of approximately 107mg CO₂/g for biodegradable produce bag rolls and 123mg CO₂/g for biodegradable shopping bags, thus contributing to environmental pollution and global warming.

The metrics and targets used to assess and manage such risks and issues

Our Group expects the cost of environmental compliance will not have a material impact on our results of operations. As at the Latest Practicable Date, our Group had identified the following material KPIs during our business operation:

- (i) greenhouse gas emissions arising from the use of electricity;
- (ii) product quality control; and
- (iii) occupational health and safety.

Our Board will set targets for each material KPI at the beginning of each financial year in accordance with the disclosure requirements of Appendix 27 to the Listing Rules and other relevant rules and regulations upon Listing. The relevant ESG targets on material KPIs will be reviewed on an annual basis to ensure that they remain appropriate to the needs of our Group.

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For the target setting, we target to reduce the GHG emission intensity by at least 2.0% in the three years ending 2025 compared to FY2021. During the Track Record Period, the following table shows the emission result for scope 1 direct emission, scope 2 indirect emission and scope 3 other indirect emission:

	FY2019	FY2020	FY2021	9M2022
Biodegradable plastic products				
Scope 1 direct emission*	0.0215	0.0082	0.0122	0.0443
Scope 2 indirect emission*	1.3728	0.8487	0.6174	0.6639
Scope 3 other indirect emission*	0.0005	0.0002	0.0015	0.0004
Non-biodegradable automobile plastic parts				
Scope 1 direct emission*	0.0012	0.0015	0.0014	0.0051
Scope 2 indirect emission*	0.0767	0.1596	0.0684	0.0769
Scope 3 other indirect emission*	0	0	0.0002	0.0001
Total GHG emission (result show in 2 decimal places)	1.47	1.02	0.70	0.79

* unit in thousand kilogrammes of CO₂ equivalent per thousand kilogramme of products sold

Scope 1 direct GHG emission results from the burning of fuels in automobiles, while scope 2 indirect GHG emission results from the purchased electricity. We are generally responsible for delivery of our products to the locations designated by our customers within Jilin province, the PRC, while scope 2 indirect GHG emission principally results from purchase of electricity to support our operations and manufacturing. Scope 3 other indirect GHG emission results from the activities which cause indirect GHG emissions, including the paper waste disposed at landfills, the electricity used for processing fresh water and sewage by government departments, and business air travel by employees.

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Other pollutants information during the Track Record Period:

	FY2019	FY2020	FY2021	9M2022
Biodegradable plastic products				
Nitrogen oxides (“NOx”).	0.0559	0.0204	0.0172	0.0621
Sulphur oxides (“SOx”).	0.00013	0.00005	0.00007	0.00027
Particulate Matter (“PM”).	0.0055	0.002	0.0017	0.0061
Non-biodegradable automobile plastic parts				
Nitrogen oxides (“NOx”).	0.0031	0.0038	0.0019	0.0072
Sulphur oxides (“SOx”).	0.00001	0.00001	0.00001	0.00003
Particulate Matter (“PM”).	0.0003	0.0004	0.0002	0.0007

* unit in kilogrammes per thousand kilogramme of products sold

Our Group has adopted the following policies and measures in order to mitigate the emissions/greenhouse gas emitted:

- switch off all electronic equipment when idle;
- proper and regular maintenance of equipment to keep their efficiency and reduce energy consumption;
- reasonable driving, private use of business automobiles is prohibited and long-distance travelling is subject to strict review to reduce unnecessary travel; and
- turn off lighting during lunch time, and the last staff member who leaves the office shall ensure that all lights are switched off.

The total water consumption of our Group during the Track Record Period was approximately 0.005 cubic metres, 0.01 cubic metres, 0.1 cubic metres and 0.10 cubic metres per thousand kilogramme of product sold for FY2019, FY2020, FY2021 and 9M2022, respectively. Our Group targets to maintain the water consumption level to 10.0 cubic metres per thousand kilogramme of product sold or below. Meanwhile, noise and solid waste disposal do not pose material impacts on our Group, if the materiality of these two items increases in the future, our ESG Committee will identify relevant sources of data, process of data collection and disclose accordingly.

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We procure raw materials in compliance with the relevant environmental protection requirements. We implement a qualified supplier assessment mechanism and regularly evaluate our suppliers in terms of compliance with the relevant safety and environmental control requirements.

Our Group pays great emphasis on product quality, and we have a robust quality control and assurance system to ensure that our product quality meets the regulatory and industry standards and customers' expectations. For details of our quality control procedures, please refer to the paragraph headed "Quality Control" in this section. During the Track Record Period, our Group did not receive any material product related complaints and no products sold or shipped was recalled for safety and health reasons. We target to continuously uphold high standards and maintain a clean record of product related complaints and product recall incidents due to safety and health reasons.

Our Group has adopted mitigating measures to address the aforementioned climate-related risks including the risks associated with extreme weather conditions and sustained higher temperatures. We have also installed appropriate fire fighting equipment to reduce the risk of fire hazards. Several measures have been adopted to prevent the build-up of static electricity and prevent sparks that could result in a fire during unloading of these raw materials. Measures include unloading of these raw materials are strictly prohibited during thunderstorms and when there is an open flame within 50 metres of the unloading area.

Our Group has formulated safety policies to ensure the safety of our workplace. There are contingency plans in place for workplace safety incidents and we conduct drills on a regular basis to strengthen the awareness of all staff members and enhance their ability to respond to hazardous incidents such as a fire or explosion. Also, trainings are provided to staff members in regards to the safe handling of inflammable raw materials and emergency incidents. Our Board and the ESG Committee will also continuously monitor climate-related matters and governmental developments around actions to combat climate change and act to minimise the impact on our operations.

Our Board oversees the performance of our Group in achieving ESG targets and objectives, investigates the reasons for deviation (if any) and revises our ESG strategy as appropriate when significant variance from the target is identified.

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EMPLOYEES

As at 30 September 2022, we had a total of 159 employees in the PRC. The following table sets out the functional distribution of our employees as at 30 September 2022.

	<i>Number of employees</i>
Senior management	5
Administration	11
Finance	4
Procurement	2
Production	109
R&D	9
Sales and marketing	6
Quality control	5
Logistics	8
Total	159

When we make hiring decisions, we take into account various factors such as our business strategies, our development plans, industry trends and the competitive environment. We recruit our employees from the open market based on a number of factors such as their work experience, education background and professional qualification. All our employees are paid at a fixed salary and may be granted other allowances and commissions based on their rank and performance.

We provide training to enhance our employees' skills, knowledge and capability. All our new recruits will be provided with an induction programme to familiarise themselves with us, followed by on-the-job training based on departmental needs and our development strategies. Various in-house trainings are conducted depending on the employee's position and job requirements.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant difficulties in recruiting employees and had not experienced any significant staff member or labour disputes.

Social Security and Housing Provident Funds

As required under the applicable PRC laws and regulations, we are obliged to participate in the social welfare schemes which provide pension insurance, medical insurance, work injury insurance, maternity insurance and unemployment insurance for our employees based on the actual

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wages of employees. We are also required to provide our employees with social welfare schemes covering housing provident funds and housing benefits based on their actual wages. For further information, please refer to the paragraph headed “Non-compliance” in this section.

In FY2019, FY2020, FY2021, 9M2021 and 9M2022, we incurred staff costs (excluding Directors’ remuneration) of approximately RMB7.9 million, RMB6.6 million, RMB8.8 million, RMB6.4 million and RMB8.1 million, respectively.

INTELLECTUAL PROPERTY

For the trademarks, patents and domain names we had obtained registrations as at the Latest Practicable Date, which we consider material to our business, please refer to the section headed “Statutory and General Information — C. Further Information about Our Business — 2. Intellectual property rights of our Group” in Appendix V to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material legal proceedings, claims, disputes, arbitration or administrative proceedings pending or threatened against any of our members or any of our Directors with regard to any intellectual property claim against us.

PROPERTIES

Owned Property

As at the Latest Practicable Date, we owned our non-biodegradable automobile plastic part production facilities in Changchun, Jilin province, the PRC, which was for non-property activities as defined under Rule 5.01(2) of the Listing Rules. The following table sets out a summary of certain information regarding our owned property as at the Latest Practicable Date:

<u>Location</u>	<u>Number of Properties</u>	<u>Entity owning the properties</u>	<u>Approximate gross floor area (sq.m.)</u>	<u>Usage/ permitted use</u>
Lot 1, Jing-Er Road, Kalun Industrial South Region, Jiutai Economy Development Zone, Changchun, Jilin Province	4	Jilin Kaishun	12,412	Non-biodegradable automobile plastic parts

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As advised by our PRC Legal Advisers, we had obtained all the relevant property ownership/title certificates for the property we owned as required under the PRC laws and regulations as at the Latest Practicable Date.

Leased Property

As at the Latest Practicable Date, we leased four properties in the PRC. The following table sets out a summary of certain information regarding our leased properties as at the Latest Practicable Date:

Address	Approximate gross floor area (sq.m.)	Use of property	Expiry date of the lease
Lot 2, Jing-Er Road, Kalun Industrial South Region, Jiutai Economy Development Zone, Changchun, Jilin Province	19,055	Biodegradable plastic product production	September 2024 ⁽¹⁾
Room 648, 6/F, Yeben Building, No. 1063, Chaguang Road, Nanshan District, Shenzhen	103	Office use	October 2023
No. 88, Dalian Road, Yizheng, Jiangsu province	1,000	Office use	May 2025
Santiao bridge, Baiziling, Xiaojin Luoyang, Boluo, Huizhou, Guangdong Province	8,522	Biodegradable plastic product production	June 2025

The relevant lease agreements have lease expiration dates ranging from October 2023 to June 2025. We do not foresee any major difficulties or impediments in renewing the relevant leases upon their expiration.

Note:

1. The lease period is three years. The negotiation of the lease period is based on commercial discussion between the parties. Our Directors consider that the length of such lease period is commercial reasonable and not uncommon given the factory structure is for general purpose. In any event, as at the Latest Practicable Date, we have initiated preliminary discussion with the landlord on Lot 2 to explore the possibility of extending the lease period to September 2029. Therefore, our Directors consider, and the Sole Sponsor concurs, that the Company will be able to renew the lease agreement in commercially acceptable terms upon its expiry.

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As at the Latest Practicable Date, we had not completed the filing for lease agreements at Lot 2 and No. 88, Dalian Road, Yizheng, Jiangsu province, with the relevant government authorities in the PRC. The usage of the property on Lot 2 is for the production of our biodegradable plastic products, while the property at No. 88, Dalian Road, Yizheng, Jiangsu province is used as office space for our sales and administrative staff. As advised by our PRC Legal Advisers, the failure to register the lease agreements for our leased properties will not affect the validity of such lease agreements, but relevant competent housing authorities may order us to register the lease agreements in a prescribed period of time and impose a fine ranging up to RMB10,000 for each non-registered lease agreement if we fail to complete the registration within the prescribed timeframe. As at the Latest Practicable Date, we had not been subject to any administrative penalties by the relevant PRC government authorities, nor have we experienced any termination or interruption of business operations or major property loss because of the failure to file the lease agreements as described above. Our Directors are of the view that the non-registration of the lease agreements would not materially and adversely affect our business operations.

Save as disclosed above, Lot 2 obtained all the material licences and permits under the PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Contingency relocation plan of our biodegradable plastic products production plant in Lot 2

Our biodegradable plastic products production plant, located in Lot 2 with a total gross floor area of approximately 19,055 sq.m., comprised our biodegradable produce bag rolls production line, biodegradable shopping bags production line, biodegradable stretch wraps production line, and biodegradable masterbatches production line as at the Latest Practicable Date.

Our Directors consider that our production in Lot 2 is crucial to our business as our manufacturing activities of biodegradable plastic products are conducted thereon. Notwithstanding that we reasonably and firmly believe that the risk of relocation of our production in Lot 2 within a short term is remote and that we intend to continue to lease Lot 2 for our manufacturing activities, there can be no assurance that we will be able to successfully renew our lease upon its expiry or our lease may be prematurely terminated or suspended for various reasons, such as compulsory acquisition by the government or material property damage, despite our Directors consider the likelihood of the above-mentioned events are extremely remote.

In any event, for the purpose of contingency management and business sustainability planning, we had identified a two back-up sites with similar gross floor area and level of rent in the vicinity of Lot 2 to serve as our back-up production plant as at the Latest Practicable Date. If any relocation of our biodegradable plastic products production is required, such relocation will be carried out in phases so as to minimise the disruption to our operations. Given (i) the back-up sites

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are in the vicinity of and approximately 7.5 kilometres from Lot 2; and (ii) most of our machinery and equipment in Lot 2 are movable, which can be assembled and disassembled, our Directors estimate that the relocation will be completed within 15 working days.

As the relocation of our machinery and equipment will be effected by phases and trial run of machines will take place once each phase of machinery and equipment are moved to the new production facility. As such, our Directors expect to maintain operation of most of our production lines during the period of relocation without any material impacts on our operation and financial performance. In any event, we estimate the relocation would cause a loss of revenue not exceeding RMB0.9 million⁽¹⁾. Our Directors further estimate that the total costs and expenses of relocation, including renovation and setting-up costs but excluding rental deposit and expenses, will not exceed RMB1.0 million.

Given that any relocation of operations will be carried out in phases, our Directors anticipate that, save for the relocation costs and expenses referred to hereinabove, any such relocation will not result in any material loss of revenue or other related loss, and will not materially or adversely affect our business operations or financial condition. In any event, as at the Latest Practicable Date, we have initiated preliminary discussion with the landlord on Lot 2 to explore the possibility of extending the lease period to September 2029.

Valuation report

As at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets. Therefore, we are not required to prepare a valuation report with respect to our property interests in reliance upon the exemption provided by Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

LICENCES AND PERMITS

Our PRC Legal Advisers confirm that as at the Latest Practicable Date, we had obtained the requisite licences, permits, approvals and the relevant renewals in all material aspects which are necessary for our business and operation. Our Directors confirm and our PRC Legal Advisers

Note:

- (1) The above calculation is based on FY2021 revenue and assuming the relocation will be completed within 15 working days by phases.

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concur, that during the Track Record Period and up to the Latest Practicable Date, our Group has not experienced any difficulties in renewing any of our licences, permits and approvals necessary for our business and operation in the PRC.

Below are the key licences, permits and approvals our Group currently holds:

<u>Licence/permit/approval</u>	<u>Issuing authority</u>	<u>Date of issue</u>	<u>Date of expiry</u>
Pollutant discharge permit (排污許可證)	Bureau of Ecology and Environment of Changchun (長春市生態環境局)	July 2020	July 2023
Transportation business permit (道路運輸經營 許可證)	Bureau of Transportation and Administration of Changchun Jiutai District (長春市九台區運輸管理所)	July 2022	July 2026
Licence for printing operations (印刷經營許可證).	Bureau of Press and Publication of Changchun Jiutai District (長春市九台 區新聞出版局)	December 2020	December 2025

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm, to their best knowledge after making reasonable enquiries, there was no litigation or arbitration proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our operations, financial condition, operating results or reputation.

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NON-COMPLIANCE

Save as disclosed below, we complied with the laws and regulations applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date. The following sets out the details of our non-compliance incidents during the Track Record Period:

<u>Non-compliance Incidents</u>	<u>Legal consequences and potential maximum penalties</u>	<u>Remedies and rectification measures taken</u>
<p>During the Track Record Period, our PRC subsidiaries Jilin Kaishun and Yizheng Juxinyuan failed to make contributions to the social security and housing provident funds for some of our employees as required by the PRC government.</p>	<p>Our PRC Legal Advisers have advised us that, under PRC laws and regulations, we might be subject to late fees and fines for not making social security contributions in full amount in a timely manner. If any competent government authority is of the view that the social security payment we made for our employees does not satisfy the requirements under relevant PRC laws and regulations, we might be ordered to pay the unpaid amount within a certain period and a late fee that equals to 0.05% of the total unpaid amount per day may be imposed on us. If we fail to pay the unpaid amount or the late fee, we may be subject to a fine ranging from one to three times of the total unpaid amount of the social security fund contribution.</p> <p>Our PRC Legal Advisers have also advised us that, we will be fined RMB10,000 to RMB50,000 for failing to make the housing provident fund registration within the prescribed time limit. If we fail to pay the housing provident fund in full amount, the housing provident fund administrative centre will order us to pay the amount within a prescribed time limit; if we still fail to do so upon the expiration of the above-mentioned time limit, further application will be made to the People's Court for compulsory enforcement.</p>	<p>Our Company has paid social security and housing provident funds in full for all employees since April 2022.</p> <p>PRC subsidiaries have obtained written confirmations from local social security authorities⁽¹⁾ and housing provident fund authorities⁽²⁾, each stating that: (i) no administrative penalty has been imposed, and (ii) the relevant subsidiary was in compliance with the respective laws and regulations. We are advised by our PRC Legal Advisers that the relevant written confirmations were issued or made by the competent authorities.</p> <p>We made provisions in the total amount of RMB1.8 million, RMB1.8 million, RMB2.3 million and RMB2.3 million, respectively, in our combined financial statements in respect of such potential liabilities as at year-end date of 2019, 2020, and 2021 and period end date of 9M2022.</p> <p>We were advised by our PRC Legal Advisers that such non-compliance incidents will not result in any substantial impediment to the Listing.</p>

Notes:

- (1) The relevant social security authorities are (i) Changchun Social Insurance Administration, Jiutai Branch* (長春市社會保險事業管理局九台分局), (ii) Yizheng City Medical Security Bureau* (儀徵市醫療保障局), and (iii) Yizheng Human Resources and Social Security Bureau* (儀徵市人力資源和社會保障局).
- (2) The relevant housing provident fund authorities are Yangzhou Housing Provident Fund Management Centre Yizheng Sub-centre* (揚州市住房公積金管理中心儀徵分中心) and Changchun Housing Provident Fund Management Centre* (長春市住房公積金管理中心).

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Non-compliance Incidents	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
As at the Latest Practicable Date, we have not registered the leases for two leased properties ⁽¹⁾ with housing administration authorities of the PRC as required under PRC law.	We were advised by our PRC Legal Advisers that we might be ordered to rectify this non-compliance by competent authorities and if we fail to rectify within a certain period, a penalty of RMB1,000 to RMB10,000 per agreement may be imposed on us as a result of non-registration.	According to our PRC Legal Advisers, the lease agreements for the two leased properties are valid and legally enforceable, and the failure to register the same does not affect their respective legal effectiveness and enforceability under the PRC law. As at the Latest Practicable Date, the relevant landlords and our Group had not been subject to any administrative penalty. In any event, we did not receive any notice from any regulatory authority with respect to any potential administrative penalties or enforcement actions as a result of our failure to register the two lease agreements described above. Furthermore, our PRC Legal Advisers are of the view that as the penalty potentially imposed on us as a result of non-registration is insignificant, such non-compliance incident will not result in any substantial impediment to the Listing.

RISK MANAGEMENT AND INTERNAL CONTROL MEASURES

Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our risk management system.

In preparation for the Listing, we have engaged an independent internal control consultant (the “**Internal Control Consultant**”) to perform a detailed review of our Group’s procedures, system and internal control procedures (including accounting and management systems). The Internal Control Consultant conducted its work in December 2021 and provided a number of findings and recommendations based on sampling methodology in its report. We have subsequently taken remedial actions in response to such findings and recommendations. The Internal Control Consultant performed follow-up review on our internal control system with regard to those actions taken by our Group and reported the follow-up review findings in April 2022. Based on the results of the follow-up review, our Directors confirmed that we had adopted the applicable internal control measures and policies suggested by the Internal Control Consultant and did not have any significant deficiencies in its internal control system as at the Latest Practicable Date.

Note:

(1) The two leased properties refer to Lot 2 and No. 88, Dalian Road, Yizheng, Jiangsu province.